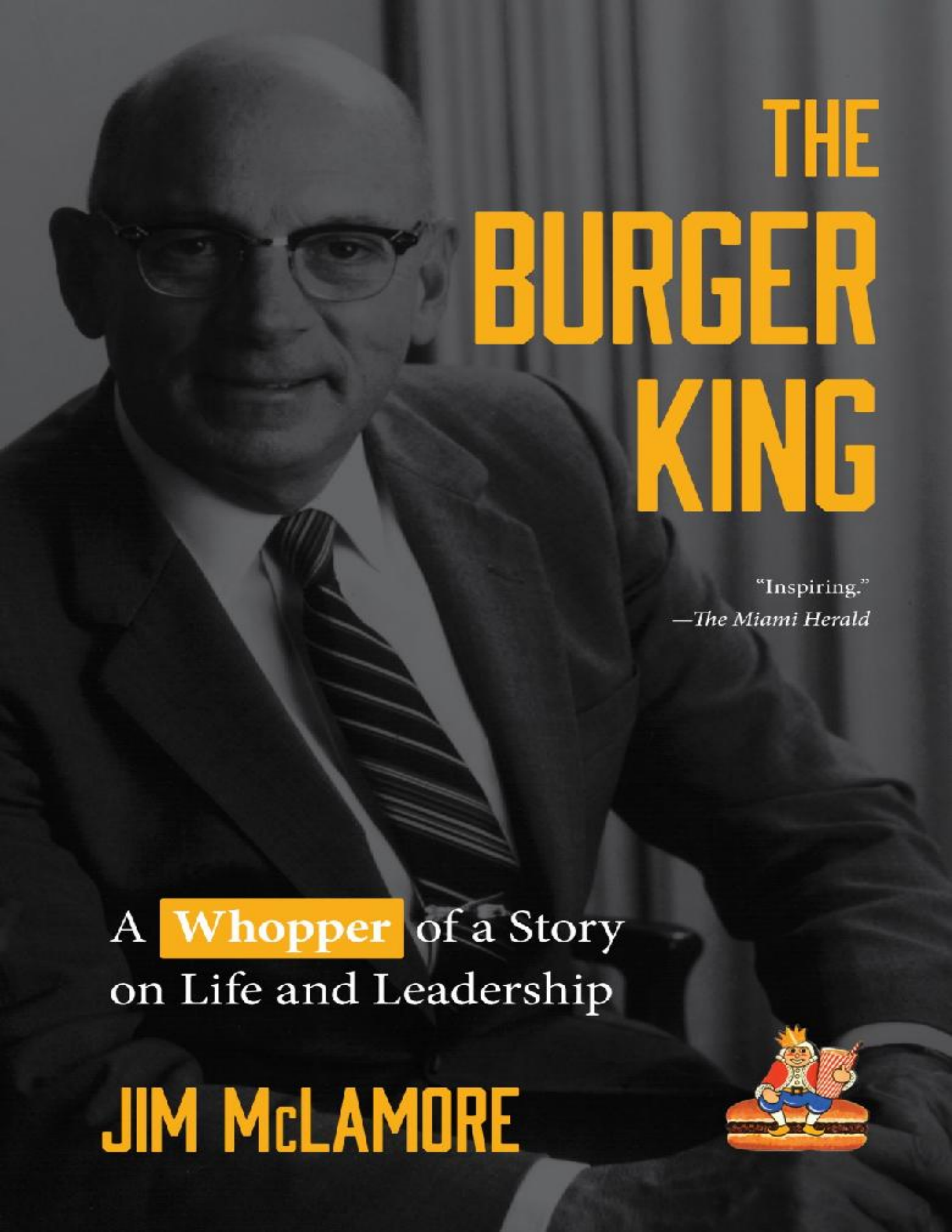

THE BURGER KING

"Inspiring."
—*The Miami Herald*

A **Whopper** of a Story on Life and Leadership

JIM McLAMORE

THE BURGER KING

A Whopper of a Story on Life and Leadership

JAMES W. MCLAMORE

Cofounder and first CEO of Burger King

Mango Publishing

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Dad would have dedicated this book to his partner of forty-nine years, Nancy Nichol McLamore. For as long as I can remember, Dad never forgot to introduce Nancy during each of his speeches and at special functions. She was his partner in life and made sure he wanted for nothing throughout their marriage. Her dedication to him would have been returned with this book dedicated to her.

—Sterling Whitman McLamore

McLamore Family Foundation

The McLamore Family Foundation was created to continue the vision of James W. McLamore by promoting activities which were important to him including: education, entrepreneurship, leadership, youth activities, and cultural, civic, and community Service Programs. The foundation has donated over four million dollars in Jim McLamore's name in honor of the work he loved. In 2011, we partnered directly with the Burger King McLamore Foundation to provide three $50,000 WHOPPER scholarships annually for their top candidates.

All proceeds from this book go to support the McLamore Family Foundation's charitable activities.

Burger King McLamore Foundation

Our story started back with our namesake Burger King cofounder James "Jim" W. McLamore and his belief in the importance of higher education for all. With the inspiration and intention to honor Jim, the Burger King Scholars program was created in 2000. The intention of the program was to advance the education of deserving students in North America and serve as a tribute to Jim, and it has been doing so ever since with the help of the McLamore Family Foundation, Burger King Corporation, its guests, franchisees, system vendors, and supporters who believe in the mission of the program and the foundation.

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FOREWORD

Jim McLamore, the businessman, was a true entrepreneur, one whose vision created a great American enterprise through his dogmatic approach in business and in life. He was the ideal person to team up with Dave Edgerton to start the Burger King empire. Jim was the perfect CEO, one whose strengths in planning, administration, and finance made for an excellent partnership with Dave, who was the perfect operational and engineering expert. Together they became one of the greatest success stories of our time.

This book represents the bulk of my father's professional life. His achievements did not stop with his retirement from Burger King in 1972 at age forty-six, but continued in his work as a board member for many corporations, and carried through to his philanthropy. His philosophy of giving back to his community and to the institutions that helped propel him along the way was paramount to his wishes for the McLamore Family Foundation. Fittingly, near the end of his life, the franchise community, Burger King Corporation, Dave Edgerton, and the family all came together to pay tribute to Dad by helping to fund the James W. McLamore Executive Education Training Center at the University of Miami. When we presented this honor to him, we also announced our creation and naming of the Burger King McLamore Foundation in support of education throughout the United States. He was deeply honored and humbled.

Dad's greatest talent was his gentle approach to doing business. Whether you were a crew member, a manager, a franchisee, or a corporate executive, he treated you with respect and was eager to learn more about you and your opinions. Many early franchisees have said that his word was his bond and

that's just the way he did business from the beginning. Trust, loyalty, devotion, and compassion were virtues deeply ingrained in his personality. Fortunately, he carried those traits into his philanthropic efforts. As chairman of the Board of Trustees of the University of Miami, Dad spearheaded the now famous $400 million five-year fundraising campaign, which far exceeded its goal by raising just over $517 million by its conclusion. Chuck Cobb, a family friend and fellow board member, said at Dad's memorial service, "He judged his ability to inspire a donation by how big a gulp they took when he asked for their contribution."

An article written after his death made mention of Dad as the "Master Gardener"—capable of growing people as well as plants. He had talent at both, but he was best known for his tropical garden at home. Dad carried over his gardening interest to the Fairchild Tropical Garden after Hurricane Andrew took its toll. As the newly elected chairman of the board of the Garden, he took great pride in announcing a $5 million fundraising plan to a shocked board of directors, throwing in the fact that he had already raised $1.5 million.

We are constantly reminded by others what a great inspiration Dad has been and how lucky they feel to have known him. He was a hero to us all and will be missed.

—Sterling Whitman McLamore

INTRODUCTION

We are competing in a global marketplace where labor costs are a fraction of our own, with jobs and production leaving the country in search of more favorable economic advantages. Like it or not, US corporations are cutting out much of the fat as they continually try to get leaner and more competitive. Jobs are no longer sacred, and unfortunate as it may be, corporate loyalty to long-term employees is becoming less significant in the minds of corporate executives. Competitive efficiency is the major issue concerning businessmen today. "Lean and hungry" is the watchword. Survival instinct is the driving force in determining corporate strategy. In this maze, people can be expendable. When the corporate world gets increasingly competitive, workers will be asked to do the same. If they elect not to, they risk losing their jobs to less demanding workers.

Sounds pretty grim, right? Well, not necessarily. In an age of corporate downsizing, wherein corporations are driven toward the increased efficiencies of outsourcing and competitive labor pricing, two things will begin to happen—both good. First, corporate profits will increase, even in the face of the lowering of consumer prices, which then brings greater confidence to financial markets—a key principle in the success of the Burger King empire.

Today we have huge economic advantages in the fields of high technology, space endeavors, communications, aircraft production, and many other activities. World demand will increase and this will benefit our economy, but competitive threats coming out of global markets will be a constant thorn in our side. Companies may fail for a variety of reasons, but tomorrow's

failures will occur principally because: (1) they are overleveraged and can't service their debts, (2) their markets have shifted and they have been unable to react to the change, (3) they don't have a working strategy designed to give customers value, or (4) they have an uninspired workforce lacking leadership.

The second advantage will involve the future formation of a number of different businesses and new industries. Workers of all ages should remain sensitive to the developments which are already taking place. These developments point to a window of opportunity for them, and it is just around the corner. This "gloom and doom" forecasting is bunk.

Remember, the commercial jet age didn't begin until the 1960s. No one ever heard of television broadcasting until we were approaching the 1950s. Motels and fast food didn't exist. In 1969, Neil Armstrong walked on the moon—the space age dawned. Just imagine these questions in context of that time: What is a "computer"? What does "software" mean? Can you explain "analog," "digital," "streaming," and "DVD"? What do you mean by "heart transplant," "fiber optic cable," "satellites in orbit," "Walmart," or "nuclear"? What is a cell phone? "Interstate Highway System"? The point is that new business opportunities open up constantly and will continue to develop at an ever-increasing rate. Opportunity exists around every corner.

If I were a young person today, I would use credit cards very cautiously. I think too many Americans have taken on too much debt and not enough of them have given the proper amount of thought to saving, budgeting expenses, or planning for retirement. The seeds of trouble are there—the sudden loss of income can seriously disrupt people's lives. Ours is the most debt-driven society in the world. A lot of personal despair could be avoided by using better sense and better planning.

What are the common threads? Preparation and planning; being current so you are savvy enough to recognize the opportunities that cross your path, and ready to seize them when they do; and having the ability to sidestep pitfalls that disguise themselves as solutions.

Written at a time that was rife with change at every level—often coming at breakneck pace—this book will not only recall a number of bonehead decisions I made (and there were quite a few of them), but also summon a recollection of some of the people I met and the lessons I learned, both good and bad.

This book is the story of my life, both its successes and failures in business and personally. How did I embrace innovation and change? How did I recognize the opportunity to grow the glimmer of an idea into one of the most widely recognized and trusted brands in the world?

My success with Burger King was unique in that I succeeded where others failed. Many of us jumped into the new market of fast-food restaurants, but only a few of us made it out in one piece. I locate most of the keys to my success in working hard and partnering with the right people, particularly Dave Edgerton and the incredible franchisees that helped Burger King grow so quickly. I hope in writing this that others can learn from my mistakes and triumphs to succeed in their own endeavors.

Jim McLamore, 1996

Chapter 1

EARLY LIFE

Jim McLamore with his siblings: Claire and David

What are the major factors in determining a person's character, attitude, behavior, and sense of values? It is a question that begs an answer, but in my judgment, it suggests that a child's early development has a lot to do with it. I would venture to say that personality traits are rather well established long before a child becomes a teenager. Childhood is a time in life when priorities become established, values are determined, and a person's mindset is created. By the time I was ten years old, I had developed a fair sense of the things I thought were important, including my family. I was guided by their influence and what they taught me.

I came to understand the importance of parental love and guidance at an early age, having lost my mother at age three and my father at twenty-one. The years spent with my family shaped so many parts of me and instilled a sense of purpose in my life. This is not to suggest that it saved me from making a lot of dumb mistakes later on—many of them during my business career.

I was born in 1926, in New York City. My father, Thomas Milton McLamore, was born on July 5, 1889, in Texas and came from a poor family, which ultimately settled in Louisiana. I don't really remember much of my mother. She was born Marian Floyd Whitman and, as an only child, led a comfortable life. She met my father, a handsome lieutenant in the US Army, who had recently returned from service in France. Falling in love after meeting her, he soon proposed, and they married on April 30, 1923.

Economic times in the United States just prior to 1926 were very good. The country was growing rapidly, and the Whitman family business was successful, enabling the family to live in style. Grandfather Whitman had bought Edgehill, the family farm in Central Valley, New York, and it became an important focus of life for the Whitman family.

After I was born, Mother and Father bought a home and moved to Montclair, New Jersey, within easy commuting distance of New York City. My sister, Claire, arrived on February 3, 1924. I arrived on May 30, 1926, and my brother David on February 18, 1928. The family lived in the Montclair residence until a deepening national economic crisis developed, which culminated in the stock market crash in October of 1929. This event virtually wiped out the family fortune and drastically changed the lifestyle of my parents, maternal grandparents, and many Americans alike. Within a few weeks, stock prices plunged over 40 percent and led to the Great Depression, the worst economic disaster in the nation's history.

James Spurr Whitman, my grandfather, died in that frantic year of 1929 at seventy-six years old. I feel certain that the crash of 1929 was largely responsible for his death, inasmuch as the family fortune had simply evaporated. The realization of this loss must have been devastating to him.

In short order, the family sold the New York City townhouse and the home in Montclair and moved to Edgehill. The shock of the Depression and the loss of the family wealth had a terrible effect on Mother; she was committed to a sanitarium shortly after my brother David was born. I never saw her again and she died in 1933. The Whitman wealth was gone, and my father lost his job in New York City as the Depression deepened. Times were grim.

I became deeply attached to Edgehill, the only home I knew as a young boy. But during the summer of 1933, there was a fire in the hay stores, and while the livestock was saved, Edgehill as a working farm was no more. What the fire did not finish, the rising tide of the Depression did.

In order to make ends meet, Grandmother began to sell her most prized possessions, which included her silverware, china, furniture, and jewelry. She was also forced to sell about half of the two hundred-acre Edgehill farm

to the Cornell family. Even as a little boy, it was evident at the time that things were changing. Through it all, Grandmother was a tower of strength. She never let on that these were stressful times for her or that she was worried about holding the family together.

This lovable grandmother of mine took every blow in stride with a fierce determination to see the family through. In 1929, she was sixty-five years old. Her doctors had warned her she had a weak heart and should be careful about overexerting herself. Dad's job at the bank required him to take a train to New York every Sunday night and return after work on Fridays. This meant that Grandmother had to play the role of mother and part-time father; she played it beautifully.

My education began in September of 1931, a few months after my fifth birthday. Throughout my schooling, I was assigned to classes where students were a year or more older than I was. I wanted to be the best student or the best athlete in the class, and the challenge was heightened by the disparity of our age differences as the gap remained throughout my education.

During my eight years in Central Valley's public school I gained some experience in public speaking at township events and various student gatherings. On one occasion I delivered the oration "O' Captain, My Captain" at the public gazebo in town. I was plenty nervous, but I had memorized the poem well enough to recite it. I think I was eleven years old at the time, but I remember the occasion. I came to understand then that public speaking is a talent which encourages the development of other communication skills. This is of considerable value to people hoping to succeed in the world of business.

Looking back, I developed an urgent sense of wanting to be successful in life. I had no idea what that would involve, of course, but I had no shortage

of ambition. I felt pretty good about my chances for success. I had an instinctive liking for people, and I wanted people to like me in return, being gregarious and outgoing and always reaching out to people to make friends. I also had a strong competitive drive. I wanted not only to be a good student, but also to excel in athletics. I thought winning was important. I didn't play in organized sporting events just to be a participant. What was important was winning the game or being on the winning team.

Around this time, Grandmother was insistent that her three grandchildren should receive as fine an education as possible. She wanted us to go to high school somewhere other than in Central Valley and began looking for a boarding school that could provide each of us with a springboard to a college education. In 1937, she found the perfect answer. She determined that Claire would go to the Northfield Seminary in Massachusetts, the sister school of the Mount Hermon School for Boys, which is where I was to be sent two years later. Grandmother then began to sell her personal assets to obtain the necessary funds for our education.

Tragedy struck when Grandmother suffered a severe heart attack and died in 1938. It was a terrible blow to all of us, but to me at eleven years old, it was absolutely shattering. Now, with only Dad left, I knew that I would be required, more and more to rely on myself. I learned confidence is born of integrity and fair dealing and is the reward for honesty and performance.

Being a former teacher, high school principal, and college graduate, Dad knew the advantages of having a good education, and he wanted me to have the best. In early September of 1939, Dad and I drove to the Mount Hermon School in northern Massachusetts. Our trip coincided with Germany's invasion of Poland, the beginning of World War II. Both events proved to be important in determining my future.

Unfortunately, being away from home those first few weeks was tough on me.

Dad had to return the school to give me a firm talking to. Finally, he turned to me and said, "Jimmy, I'm not going to take you home with me. You are going to stay here and tough it out, so you had better prepare yourself to do that." I knew his heart was breaking seeing me in such a dreadful emotional state. He told me that Mount Hermon was the right experience for me. There was nothing to do but force myself to straighten up and get on with it.

During the next few days I gradually came out of my terrible state of depression and began to get caught up in the excitement of the school activities. I threw myself into athletics, classes, studying, meeting other boys, making new friends, eating good food, and generally enjoying my new home. I began to think of Mount Hermon as my new home away from home, and this helped to trigger a sense of independence and self-reliance that I had never known before. This newfound confidence, and the opportunity to learn and to grow, was inspirational for my first year.

Returning to Mount Hermon in September of 1940, I was filled with expectations and very happy to be back. I was given a work assignment in the kitchen at West Hall. Working in the dining hall and helping prepare food for a community of six hundred boys and faculty members was my first food-service experience, and I recall enjoying it.

In May of 1942, I was elected president of our class for the upcoming senior year. I was also in the midst of planning to go on to college, yet in the background was the war and the likelihood of my entering the service. Seniors were given aptitude tests to assist school counselors in helping determine a student's most appropriate career path and the best university to attend.

My test results were revealing. I was advised to pursue a business career connected with sales or marketing. I had a liking for people and believed that I had developed some worthwhile interpersonal skills as a result of my Mount Hermon experience, which coincided nicely with this career path. I was interested in books written about the 1800s, when many of the early and great American fortunes were built. Horatio Alger stories were popular during the Depression years and the 1940s, and I enjoyed reading these books and the success stories they told. Stories about Vanderbilt, Astor, Jay Gould, E.H. Harriman, James J. Hill, Rockefeller, and Flagler fascinated me. Books about Wall Street, finance, and the building of the railroads and the great industrial companies were of special interest. I wanted to know more about the "robber barons" and more about the great fortunes made by men such as J.P. Morgan, Henry Ford, Andrew Carnegie, and others. The answers were in books and I read a lot of them.

My career goal after leaving Mount Hermon and entering college was to build a successful business career for myself, and I hoped to get rich in the process. Some would argue that perhaps there is something wrong with someone making a lot of money. Some believe that when a person becomes wealthy, he always does so at the expense of others. Nothing was further from the truth, of course, but it is hard to convince a great many people about that.

The unfortunate fact is that there are all too many greedy and dishonest businessmen who take advantage of situations that enable them to profit at the expense of the public. There is no way to effectively and totally control that in a democratic and free society.

I still believe that the pursuit of success in business and the accumulation of wealth that usually accompanies it is a worthy personal goal deserving of

respect. Handling newfound wealth is a totally different matter. When the accumulation of wealth becomes an obsession and a goal unto itself, it can work to a person's disadvantage often causing personal misery along with the loss of a worthwhile set of values. I have seen many people in this situation. The problem usually begins with establishing the wrong priorities and focusing on self as opposed to becoming involved with activities that help to enrich the lives of others.

I was particularly fortunate to have had that part of my long-term goals in mind even as a teenager. I needed to find a college that was affordable and offered me the kind of education that could assist me in starting my own business career. I decided on Cornell University and asked what they offered in the way of business training. I learned that the only school at Cornell that offered a business program was the School of Hotel Administration. I applied for admission and my application was accepted.

At the graduation ceremonies at Mount Hermon, I gave the class president's address, and 149 friends and classmates received their diplomas. It was the end of one era but the beginning of another. I was reaching for the next rung in the ladder, and I had a clear destination in mind.

Chapter 2

CORNELL AND THE NAVY

Jim in his Navy uniform, 1944

During World War II, the educational format at most universities, including Cornell, was a year-round trimester program as a means of speeding up the educational process. I didn't expect to be called up until sometime in 1944. Until then a college education was my number one priority.

I had ten days to get to Ithaca, find a job, and register at the university. I had no idea how I was going to raise the tuition money. The tuition at Cornell was only two hundred dollars a trimester, but I needed to pay it in advance before I could register for classes.

Upon arrival I was introduced to Professor Herbert H. Whetzel, who was the Chairman of the Department of Plant Pathology at the New York College of Agriculture. For many years Professor Whetzel had taken in students who worked at his home and tended his garden. This was a way a student could earn money for room and board and hopefully earn enough extra money to pay for tuition and incidental expenses.

The Prof—as I would come to call him—knew that I was interested in room and board, and it piqued his interest when I told him that I had grown up on a farm. He asked me a lot of questions and I am sure that my marginally acceptable responses had something to do with his offering me the job. He simply turned to me and said, "Son, I think you will do!"

The Prof lived in a modest home very close to the Cornell campus and the Hotel School. I was enthusiastic about the possibility of becoming part of that wonderful family, but there was still one more important thing to be resolved. The Prof threw the key question at me and asked how I was going to pay the tuition. I reached in my pocket and placed all the money I had on the top step of the porch. We counted it together and it came to $11.34.

Turning to me he said, “Look son, I wasn’t talking about your pocket money, I was talking about how much money you have to pay your tuition. You realize, don’t you, that it is due in a few days?”

I responded, “Well, that’s all the money I have, Professor Whetzel.”

He seemed annoyed and impatient with that response. “Well, alright then, where are you going to get the tuition money? How much does your family have?”

“My father doesn’t have any money.”

A bit more annoyed, he said, “Goodness sakes, boy, how do you expect to get into this university?”

“Well, I was told that boys you accepted could work their way through college, so I just assumed that somehow you would help me do that.” He just couldn’t believe that I had come all the way to Ithaca without making arrangements to pay for my tuition.

Nevertheless, this set the Prof’s mind to work. “Well, I know the Dean of the Hotel School, Professor Meek. I’ll have a talk with him about a possible scholarship and tomorrow I’ll introduce you to the treasurer of the university, Edward Graham. We can talk to him about the possibility of obtaining a student loan.” The next day, Professor Meek said he thought he might be able to get me a fifty-dollar scholarship from the American Hotel Association, and Mr. Graham, representing the university, agreed to loan me a hundred dollars. Professor Whetzel made up the difference by lending me fifty dollars, which gave me the needed tuition and the start I needed.

On Saturdays and Sundays, I worked ten to twelve hours a day around the house and in the garden. Turning and screening the compost pile, digging compost into the garden plots, weeding the garden, and mowing the lawn.

The Prof loved his garden and he often worked right along with me. His infectious enthusiasm impressed me, and I gradually developed a keen interest in learning how to grow and care for the various plants, vegetables, and fruits which were his pride and joy.

The months I spent in his garden stimulated my interest in horticulture. Although I didn't realize it at the time, gardening would become an all-consuming hobby for the rest of my life.

I had no way of knowing in 1943 how big the hospitality industry would become. I was standing right in the path of progress at the time. In 1943, the year I arrived at Cornell, the total dollar volume of Eating Place Sales according to the US Department of Commerce was a mere $7.2 billion. By 1995, this would exceed $225 billion, and I couldn't possibly have imagined that a company I would later cofound would proudly report having over eight thousand restaurants operating in fifty-nine countries around the world and have system-wide sales in excess of $8 billion. By 2018, this would grow to over sixteen thousand restaurants in one hundred countries. I was very fortunate in that I was receiving an excellent education and formal training in an industry that would soon enjoy explosive growth. With World War II in progress during the early 1940s, facilities expansion and new growth remained out of the question until the postwar era began.

By June of 1944 I had finished three academic terms, which meant that I was midway through my sophomore year. Having turned eighteen in May, and knowing that I would be called into service before long, I began to think of enlisting in the United States Navy. From the time of my arrival at Cornell in June 1943 to June 1944 I worked hard and had a strenuous year as a student. I not only worked hard at the Whetzel home, but I had taken on additional jobs in order to earn extra money to pay off my obligations and

have some left over to pay for incidental expenses. Money was always a problem at that time.

By June of 1944 I was tired. I had attended classes for the last twelve straight months without a break. My extra jobs were depriving me of sleep, and the weekends working in the garden and around the house added to the pressure. On top of it all was the uncertainty about being called into the service. I had no idea when that would be, but I knew it was coming.

By this time the pace of the war had grown hot and heavy, but it was definitely going in our favor. Tens of thousands of eighteen-year-olds such as myself were either being drafted into the service or voluntarily enlisting in the service of their choice.

I joined the Phi Delta Theta fraternity, much to the disappointment of Professor Whetzel, who didn't think I could afford to do it. He was probably right on that count, but the fraternity experience did contribute to my college life, and I enjoyed the friends and fellowship that came with it.

Professor Whetzel insisted that I keep a detailed and accurate accounting of the hours worked, the income I earned, and the expenditures I made. He insisted that I reconcile the amount of cash in my pocket against the income I earned, less my out of pocket expenses. This was a regular part of our monthly meeting where we settled on the income I earned less the deductions for the cost of room and board. It was a rather thorough accounting procedure. The Prof gave me a ledger when I first moved into his home and insisted I record all of this information in it.

With mixed emotions, I decided to leave Cornell in June of 1944. I planned to enlist in the Navy and told the Whetzel family of my plans. They seemed to understand. When the final day came, I said a last goodbye, and with a

packed suitcase I walked out the door. I then enlisted in the US Navy Air Corps. This branch of the service was glamorized in the propaganda movies, and for a teenager like me it had a lot of romantic appeal! I had to wait for several months until I was called.

During the interim period of late summer and early fall of 1944, I decided to get some practical experience in the hotel field. I needed to do this before I could graduate from Cornell. I took a job at the Hotel Astor in New York City. The famous Astor Bar was a favorite meeting place for members of the armed services on leave in New York City. This spot fronted on Times Square, and it was my job to sit behind the bartenders and ring up bar tabs as they served drinks. The manager of the Astor Hotel was a friend of Professor Meek's and a big supporter of the Cornell Hotel School. The hotel featured the famous Astor roof garden where some of the big bands played during the war years. In the evening it was usually filled with soldiers, sailors, and marines on leave in the big city. Many of the well-known ballrooms in the major hotels in New York brought in the big bands as drawing cards. Glenn Miller's orchestra played often at the Cafe Rouge in the Hotel Pennsylvania. Tommy Dorsey introduced a young singer named Frank Sinatra in 1940.

I recall those wonderful hours late at night lying in bed listening to the terrific jazz music that spilled out into the streets and alleys. The period of time between my days at Cornell and entry into the United States Navy was short but productive. With time available, the Hotel Astor training proved to be very educational and the excitement of living in New York City gave me a feeling for the world of business.

Even though I enjoyed and benefited from the experience, I was ready to get into uniform and do my part in the war effort. But even in my

impatience, I never lost sight of my ultimate goal of a successful career in business and seized the opportunity to gain experience and start to build another layer of its foundation.

The Navy—like life—constantly tested how much physical and mental stress we could take and how we would respond to discipline and the taking of orders.

Our company was made up of two platoons and I was made one of the platoon leaders. As platoon leader, I had to see that orders, rules, and procedures were carried out. There were three tough kids from Brooklyn in the platoon who decided to test me. Coming from similar backgrounds and neighborhoods back home, they had become friends. All three of them were a year or two older than I was, and as the days went by they became more disruptive in challenging my authority. A confrontation was inevitable, and when it came I had to act or risk losing control.

The Navy's procedure for resolving disputes was to meet in the drill hall and settle the matter in any way we saw fit. The common presumption was that if it got down to that it would involve a good fistfight. I told the trio's leader to meet me after "mess" and bring his two buddies along. I'd bring Callahan, the big Irishman who was the other platoon leader, but I'd settle the matter myself. The three boys from Brooklyn never showed, and they never gave me any problems after that. In fact, they became very cordial and pleasant from that point forward. The experience reinforced my opinion of the value of standing up for principle. I had to let people know that, as a leader, I was prepared to enforce discipline. I was never challenged after that incident.

Within a few months, I received orders to report to the Naval Reserve Officers Training Corps (NROTC) at Cornell University in June of 1945.

This was a wonderful bit of luck. The training at the university required me to take a number of courses in Naval tactics, Naval science, and navigation, but I was permitted to take additional courses of my choosing, so I elected to take most of them in the School of Hotel Administration. This was a real break for me because the Navy was paying for part of my continuing education.

When I arrived back at Cornell, I was assigned to a six-man dormitory room in a fraternity house, which the Navy had taken over after the war began. A Navy veteran named Francis Xavier Fleming had already staked out the lower bunk from Pittsburgh. F.X. played football for Cornell during the previous fall months and was one of the better players on the team. I decided to try out for the team with my new friend and see if I could make the squad myself.

I tried out for the quarterback position and didn't do particularly well, mostly because the first-string quarterback was an all-American candidate named Al Dekdebrun. I made the team, and played in a few games, but never amounted to much. It was fun and worth a try, but I began to learn that just having a natural athletic ability isn't all that it takes to become a standout performer. It takes passion and intensity to be the best you can be. I didn't have that passion and I didn't have that commitment for athletics.

There was a simple lesson to be learned, and I took it into the world of business a few years later: Don't take on an assignment where success is the major objective unless you are passionate about succeeding. Passion is a key ingredient in building a successful pattern in life. It is the source of inspiration and creativity. It builds a person's inner determination, hopes, and aspirations. Without passion it is difficult to establish realistic goals and

develop plans to achieve them. I got the first inkling of that on the gridiron at Cornell.

I view myself as a passionate, even intense, individual, simply because I know that is part of what it takes, not only to be a leader, but also to succeed. I've known a lot of people who lacked this kind of focus. Most of them never achieved the level of success which could have come their way. I didn't have the passion to elevate myself above that in athletics, but I vowed right there that I wouldn't let that happen again.

The fall-winter trimester started in November, and this brought back many returning civilians and a number of recently discharged servicemen and women. After arriving at the Cornell campus during the early part of the summer, I joined a student government organization known as the Spirit and Traditions Committee. A number of committee members returned that fall, including a very attractive girl from Miami named Nancy Nichol.

I didn't know then, but this unusually upbeat and friendly, very blond and pretty woman would one day become my wife. She was easy to be with and talk to. In the weeks that followed, we went out on a number of dates and had wonderful times together. Both of us were nineteen years old at the time, but I was already developing some serious thoughts about the future.

As the Christmas season approached, Nancy asked what I planned to do during the holidays. I told her that I really didn't know. Nancy suggested that I spend the holidays with her and her family in Miami. The invitation took me by surprise, and I recall asking her what her mother would think about having a complete stranger coming to her home for the holidays. Her response was, "I don't know, but let's call her," and with that she went to a telephone and called her home. Nancy's mother, Mrs. Nichol, said that the family would be delighted to have me come and spend a few days with them.

The problem was how to get to Miami. Transportation was still difficult and hard to obtain even though the war was over. It was almost impossible to get a train ticket, but that didn't really concern me because I couldn't afford one in the first place. My only option was to hitchhike.

On the way south during a cold and snowy day in December, I was dropped off late one night in Petersburg, Virginia. It was snowing hard, so I decided to stand under a streetlight where I could be seen. There were only a few cars on the road at that time of night, and the snow was building up on the road and covering a few tire tracks when a car marked "taxi" came up and a cheerful voice inside said, "Hop in, sailor." I said, "Sir, I think I am going a lot farther than you might be in your taxi, and I think I had best stay under this streetlight so I can be seen." He replied, "Well, son, if Charleston, South Carolina, would help, that's my next stop and I'd be pleased to take you there." I hopped right in.

Another ride dropped me off in St. Augustine, where the weather was sunny, warm, and beautiful. The driver was hauling a boat, and at one point in our conversation I asked the driver if I could hop up in the boat and take a sunbath on the way south. He was happy to do that and pulled his rig over to the side of the road so that I could climb up into the boat. I lay back in the open cockpit imagining that I was a man of considerable leisure enjoying the warm Florida weather, the blue water, and the marvelous Florida scenery. I felt like a king. This was a slice of life I wanted to have more of, and I determined right there to get it.

I was thrilled to see Nancy again, and her mother and father welcomed me warmly into their home. Nancy took charge and got both of us involved with a whirlwind of activity. We attended parties, went to dances, went sailing, met Nancy's friends, and drove all over the city. It didn't take me long to

convince myself that Miami was the place I wanted to live after finishing my education. My immediate impression was that South Florida was an absolute dream world. I thought about it in terms of warm days, balmy breezes, clean white buildings, palm trees, glistening water, and opportunity. No place in the world could compare to my newly discovered tropical paradise.

I had reached another important conclusion, which was simply that Nancy was the girl I wanted to spend the rest of my life with. I finished the semester at Cornell in May of 1946, when I received orders to report to the US Navy Separation Center at Lido Beach, Long Island. I couldn't return to Cornell right away. Before doing that, I needed to get a job that would satisfy the Hotel School's requirements for earning more "practice credits," which was just another name for practical working experiences.

I took a job as an all-around handyman/desk clerk at a small country inn in Connecticut called Boxwood Manor. I had high hopes that Nancy would be able to visit with me for a few wonderful days together, but it made me realize how difficult it was to be apart. We discussed the possibility of getting married many times, but being so young and having no money or a permanent job prospect in sight put the idea pretty out of the picture, at least for the time being.

When I returned to Miami in the fall of 1946 to take a job at the Hollywood Beach Hotel, I called Nancy's dad, Dr. Nichol, at the family home a few blocks from downtown Miami. When I arrived, Dr. Nichol was having lunch while reading and sunbathing in his backyard.

I told Nick that I was in love with Nancy and intended to marry her. I said that I hoped he would give his approval and consent. He was probably expecting as much, and with a twinkle in his eye, asked me how I intended to support her "in the manner to which she had become accustomed." I gave

a not too reassuring answer and that was about all there was to our conversation.

Our actual engagement came several months later. My sister Claire, sensing that Nancy and I were serious about getting married, presented me with the engagement ring which Dad had given to our mother. It was a one-carat canary diamond in a channel setting in green gold. Grandmother put the ring in a sealed envelope on which she wrote, "For Jimmy's Bride." Claire, knowing how broke I was and recognizing my desperate need for an engagement ring, gave it to me so that I could present it to Nancy in December of 1946. Of course, Nancy was thrilled, and the ring became her proudest possession.

She later gave that ring to our own son, Whit, to present it to his own bride-to-be, Lauren Bryant, who gave it to their son James, who gave it to his bride Corina Clavo. And so the tradition continues.

Dad died shortly after I returned to Cornell in February of 1947, and I put Edgehill up for sale. The property would net only a very small amount of money, which meant that there would be very little left to divide between Claire, David, and myself.

I was alone except for Nancy. Nobody could have filled my life with more optimism, happiness, and confidence than she was able to do. Nancy came to me as a powerful and refreshing breath of spring at precisely the time I needed someone close to remind me that life could be wonderful, worthwhile, and promising. Nancy is the kind of person who looks at life in a positive and upbeat fashion. I have never known her to be "down" or depressed, and I have never seen her dwell on negative thoughts. Her mission in life always seems to be one of spreading joy and happiness wherever she can. She does this with extraordinary consistency.

Even though I had yet to earn my degree, I was sure that I wanted to get married. In spite of being in a difficult situation, Nancy and I decided to tough it out together. We were married on April 27, 1947, in the old Trinity Church in New York City. It was a small family wedding with Nancy's family, my own, and a few close friends in attendance.

Sometimes there is never a "right" time to take on a new role, responsibility, or change in life. The key is to embrace your passions. Marrying Nancy, even with an uncertain future, was the best thing that ever happened to me.

Chapter 3

YMCA & COLONIAL INN

The original Colonial Inn menu

After World War II, as the US economy and work force gradually expanded, companies grew and prospered and newly hired workers assumed that they had obtained lifetime jobs. The US economy was thriving at a time when Europe and Asia were desperately trying to rebuild after the near total devastation brought about by a horribly destructive war.

I personally began to get the message right after we were married. At the time Nancy and I were in pretty bad shape financially. My father-in-law, Dr. Nichol, had given us three hundred dollars and his 1941 Chrysler. He had paid for Nancy's room and board at Cornell through the end of the spring semester, which helped. I was able to earn a little bit of money working at odd jobs, but I wasn't able to save much of anything. If there would be anything at all coming from the sale of the farm, it wouldn't come for a while.

These were financially tough times to be sure, but things were going to work out. I felt sure of that. I was prepared to expect that my future in the business world was going to be full of tough times. I felt that in order to become a success in life I had better figure out a way to deal with unexpected reversals and disappointments. I was already looking at my first one: I had taken on a wife, I had no money, I was still in college while trying to pay for it, I had no job and no prospects for one, and I was looking at a bleak job market where millions of returning servicemen were among the competition.

It was obvious that I had done a pretty poor job of planning. I was determined to do a better job in the future.

I believe that one of the cardinal rules of success is planning. So far as personal and business planning is concerned, this starts with preparing a budget, itemizing assets and liabilities, and projecting income and expenses.

It is surprising to me how little thought is given to the simple listing of these numbers, but without them there is very little discipline in spending and the utilization of resources. In short, there is no plan at all.

I put myself on the verge of going broke four times in my life, mostly when I was young and just starting out. Looking back, I recognize that I was hasty, impetuous, and often guilty of jumping to conclusions.

My advice to young people starting out today would be to get really familiar and comfortable with numbers and learn how to use them. We have taken this approach with the Burger King organization since 1954. This is a company that puts people from all walks of life into a business which most of them have never experienced before. We try to teach financial discipline and fiscal planning. Still, I have seen very smart people fail in a franchise that should have been enormously successful simply because they didn't plan properly.

Nancy and I followed many leads for jobs, but we were really concerned that we couldn't see any promising opportunities anywhere. After a fruitless trip to Pittsburgh, Nancy and I returned to Ithaca to resume the frustrating task of trying to find work. After weeks of waiting, I finally received an encouraging response to an application I had submitted The YMCA in Wilmington, Delaware, was looking for a person to take over as their director of food service, and I was invited to come down for an interview. It didn't take me long to pack. I took off from Ithaca in late August of 1947.

The job looked very challenging to me despite the meager pay of $267 a month. The YMCA operated the largest cafeteria in Delaware, with a soda shop on the main floor. Above the cafeteria kitchen and bakeshop were several floors of banquet rooms, each of which was equipped with a booster

kitchen serviced by an elevator from the main kitchen below. A staff of about thirty employees was needed to operate this complex facility.

I desperately wanted to land this job. I needed to get to work and start earning a living. The job itself was not intimidating because I knew that, given a chance, I could do it. I wanted an opportunity to prove myself, and I felt very confident about my ability to demonstrate that I was up to the task.

After the interview I headed back to Ithaca where Nancy was waiting anxiously to find out what had happened. I told her about the interview and described the cafeteria, the food-service facilities, and the people I had met. She could easily see how excited I was at the prospect. The people at "the Y" had told me that they would make their decision soon.

The wait seemed interminable, but a call finally came and with it the offer of the job I had so anxiously sought. I was asked to report as soon as possible. We packed our personal possessions, put them in the car, and headed for Wilmington.

Within twenty-four hours of our arrival in Wilmington, two events took place that reminded both of us that we weren't out of the woods yet. Our car was broken into in the hotel's parking lot and all of our personal possessions of any real value were stolen. Then I began to develop some severe shooting pains in my lower back. The pain became so intense that the only relief I seemed to be able to get was by standing in the hotel room shower and letting very hot water run down my back. When I did report, I was ready, excited, enthusiastic, and determined to do well. This was my first big chance and I had every intention of making it a success.

Although I was excited, I was aware that life for Nancy must have been pretty dull at the time. She was expecting our first child and I know that her

mind must have been occupied with prospect of becoming a mother. I was in constant admiration of her positive spirit. In all the years of our marriage, I have never known Nancy to let things get her down.

The cafeteria operation at the Wilmington YMCA was in a disastrous state of affairs when I got there. Even though I had never worked in a restaurant before, it was obvious to me that the inventory was totally out of control and the employees were uninspired and lacking in direction. The staff was not focused on providing the highest standards of food quality and customer satisfaction that I thought we should be delivering. The menu was unimaginative and there were no plans in effect to study costs, develop efficiencies, and target profitability.

As an example, the building manager had allocated two large areas for the cafeteria's use in storing supplies. Both areas were stacked high with canned goods and paper supplies, and it took me three days to complete my first inventory, which was ridiculous given the size of the operation. Some of the supplies dated back over ten years. Cans were exploding in their cases because they had been kept in storage for such a long time. It was a classic case of an ill-advised "Last In, First Out" inventory control process. I could tell that I wouldn't need to order much in the way of non-perishables during my first few months on the job.

My first job was to unload that bloated inventory, and the best way to do that was to create appetizing meals and sell them as cheaply as I could. In doing that I was able to offer our customers great value. Because of this, we began to attract new business and we were able to reduce the inventory quickly. Within a few months I was able to return these two storeroom areas to the building manager, who couldn't believe that we didn't need them any longer.

When I arrived at the Y as its new director, I was pleased to learn that an assistant manager was already in place. Mrs. Kelley was a dietitian by training. She was a very proper, pleasant woman, but I was troubled by the fact that she was always working at her desk in the little office we shared right off the cafeteria's main floor.

She spent most of her day recording information in ledger books, three or four dozen of which lined the walls of our office. One day I asked her what this was all about and she explained that she had always recorded information from our purveyor invoices about the cost and specifications of the food we were purchasing over the years. She pointed proudly to the fact that she had posted this kind of information and that she could recall how much the YMCA had paid for goods and supplies going back as far as a quarter of a century. As far as I was concerned this was totally useless information. She acknowledged that the bookkeeping department kept all of our invoices after paying them, so I saw no reason to produce this kind of supplementary data.

I thought she should have been spending more time in the kitchen and on the serving line. I picked up the phone, called the building manager, and asked him to send a laundry truck. One of his men arrived a few minutes later and I asked him to put all of Mrs. Kelley's record books into the laundry truck. I took the ledger she had in front of her and put that on top of the rest of the ledgers. Then I removed all of her desk drawers, which were filled with pencils, erasers, rubber bands, and paper clips, and threw all of these things into the laundry truck on top of all the ledgers. I directed the building manager to burn all the material in the furnace. This whole episode absolutely appalled Mrs. Kelley. She stared at me in disbelief, but the books were burned, and nothing was left in the office except for our two desks and chairs.

Mrs. Kelley wouldn't speak to me for several weeks. With no bookkeeping to do, I noticed that she kept very busy in the kitchen, the bakeshop, and on the counter supervising our food preparation and customer servicing. Within a short period of time, the service on the cafeteria line and the quality of our food gradually began to improve.

Several weeks after the incident, she finally came to me. "Mr. McLamore, I hated you when you burned all of my books. I had been keeping them faithfully for over twenty-five years, but I can now see that you were right. They were not serving a useful purpose. I have the time now to do the things that I was trained for and I am enjoying my work much more. I am also pleased to see that our business is improving."

From that moment on, Mrs. Kelley and I were the very best of friends. In fact, she was almost like a mother to me. No doubt I had been too impetuous and abrupt in handling the matter, but dramatizing it got us focused on the right issues. Redundancy eliminated.

Mrs. Kelley and I concentrated on building sales and profits. What we accomplished was impressive because, as it turned out, we made more profit during my first year than the YMCA had made in the entire previous thirty years combined.

My experience at the YMCA made me begin to think in terms of organizing people and developing operating systems. This seemed to be the necessary first step in building a profit-making enterprise. It was not only a thrill for me to have produced such impressive results, but it gave me a sense of other kinds of opportunities that might become available in the food-service industry. At a young age and already successful in my first job, I began to believe that I was capable of achieving solid results in the restaurant business. I was learning how much fun it was to make a profit,

and the pleasure and satisfaction of doing so would stay with me for the rest of my life.

I began to think in terms of my own situation. My $267 per month salary was very low even by 1947 standards, and it was difficult to envision raising a family and owning a house and farm on such a small income.

When her time came, Nancy went to the hospital and delivered a beautiful girl who we named Pamela (although we always called her Pam). I also thought it would be nice to have a little dog, so I bought a boxer puppy that we named Bambi. With a new baby and a puppy, we had managed to double the size of the family overnight!

A few weeks later, Nancy was sitting in a chair in the living room with Pam and Bambi cuddled up beside her while I was reading the paper. Hearing a strange noise, I looked up and saw a crack in the plaster working its way across the ceiling above us. Grabbing Nancy, the baby, and the dog, I rushed them out of the room just as the entire ceiling crashed down in a cloud of dust. With our modest furnishings and new apartment pretty badly damaged, I thought it might be a good time to look for another place to live.

I came across an advertisement offering a five-acre farm for sale near Newark, Delaware, a community just a few miles from Wilmington. After lunch we drove out and looked at the farm, with three bedrooms, a nice fireplace, a large kitchen, living room, and dining room. It sat on five acres of land bordering a wooded area and a lake. We fell in love with it and bought it for nine thousand dollars. This became our first real home, and even though it was modest by any standards, it was all ours and we thought it was wonderful.

My job at the YMCA by that time was going very well. I made a point of meeting as many local businessmen as I could because I wanted to develop a profitable banquet business. I felt that by serving lunches and dinners to large gatherings I would make use of the three banquet rooms. The idea caught on quickly and profits from this growing banquet business came in steadily. The management of the YMCA was impressed with our financial performance. I was making more money for them than they had ever thought possible.

One of the local restaurateurs in Wilmington had taken note of my success at the YMCA, and, after a number of meetings, he convinced me to quit my job to go to work for him. The results were nearly catastrophic. It turned out that we just didn't get along very well. After a few months in this job I was dismissed one evening after a particularly difficult confrontation. I drove back to the farm that evening and broke the news to Nancy. It was particularly troubling because we had very little money left and Nancy was pregnant again.

While at the YMCA, I had noticed a restaurant across the street that seemed to be busy twenty-four hours a day. It was called Toddle House and it was part of a chain of quick-service, short-order restaurants that enjoyed significant growth in the '30s and '40s. The first White Castle opened in 1921 in Wichita, Kansas. The founder of White Castle, Billy Ingram, is generally acknowledged as being the father of the hamburger. His very successful White Castle concept was cloned by a number of imitators, one of which was Toddle House. By 1949, when I began to look for a business of my own, food-service chains such as these had become well established and were operating very successfully.

Customers in those restaurants were served at a straight-line restaurant counter with only ten seats. All the food preparation was done behind the counter and in front of the customers. Clean stainless steel equipment was used throughout. The menu consisted of short orders and breakfast items such as orange juice, eggs, bacon, sausage, pancakes, waffles, toast, coffee, and, of course, the main feature was hamburgers.

In the 1920s and 1930s, White Castle and their numerous imitators offered variations on a basic theme. Toddle House was one of a number of restaurant chains piggybacking the styling and success of the original White Castle. Their restaurants were clean and efficient, and they delivered a great price-value package to their customers. Open twenty-four hours a day, they proved to be popular places to go for quick, affordable food any time. Run properly and in good locations, they were very profitable operations.

It seemed that the Toddle House was busy every time I went by, no matter what time of day or night. The ten seats were full most of the time, and often there were people standing up waiting to be served. It looked like a sound business to me and I began to think that a similar operation could be equally successful.

Next door to the Toddle House was a vacant building that had once been a bicycle repair shop. I introduced myself to the landlady and found that she was very anxious to rent the facility for three hundred dollars a month. I felt that if I copied the Toddle House concept, I could operate a successful competing business of my own right next door to it.

I signed a lease for the building and designed a food-service concept that was just a little bit fancier than the Toddle House, but essentially the same kind of operation. Instead of putting in a straight-line counter, I decided to install a horseshoe-shaped counter with fourteen seats. I decided to make

the interior of the restaurant much different than the Toddle House. Instead of having a small space for food preparation and customer seating, I designed a much larger interior. The production area would consist of stainless steel tables, a fryer, gas grill, refrigerator, exhaust hood, coffee maker, and drink station.

I felt the larger area inside the restaurant could be made very attractive by using linoleum flooring and wallpaper. This would give the customers a pleasant view of the food preparation processes and provide a certain amount of ambiance. In the event the seats were fully occupied when customers arrived, I had comfortable seating to accommodate the overflow.

I installed one of the first air-conditioning units that were just then coming into the commercial market. Air-conditioning was still a novel customer luxury in retail shops. This gave me a distinct competitive advantage over the Toddle House, which didn't have one. I remembered the discomfort of trying to sleep in hot hotel rooms, and I was fully aware that eating in hot restaurants wasn't any fun either.

All of this scrambling to design, build, and open the restaurant took place in the summer and fall of 1949. Several other important events were taking place at the same time. Our second child, Lynne, arrived on September 16 of that year. While I was busy designing, planning, and building the restaurant, Nancy took on the challenge of running a bigger household. It wasn't easy raising two babies during a time when our prospects for the future were so uncertain.

During Christmas week in 1949, I was busy putting the finishing touches on the restaurant. With plans to open for business right after New Year's Day, my time was spent hiring a crew, setting up an inventory of food and supplies, and attending to a host of other details. I decided to call the

restaurant the Colonial Inn, and planned to keep it open around the clock; I never put a lock on the door. The logo on the sign outside the front door depicted a colonial lady stirring a pot over an open hearth. The sign was lit on both sides, and our restaurant was located at 700 Delaware Avenue. It soon became a favorite eating spot. The three working shifts would be from 7:00 a.m. to 3:00 p.m., another one from 3:00 p.m. to 11:00 p.m., and the graveyard shift from 11:00 p.m. to 7:00 a.m. We opened for business on January 4, 1950.

One of my former employees at the YMCA, Audrey Reeder, became my chief lieutenant. She and her husband Herman moved into the upstairs apartment. One of us was always available. Audrey or I was required to pull the graveyard shift when someone failed to show up for work. It wasn't always easy to find reliable and experienced help willing to work the late-night shift. I spent quite a few nights cooking hamburgers and short orders.

The good news was that from the day we opened, the Colonial Inn was a success. Hamburgers, French fries, short orders, waffles, eggs, pancakes, tenderloin steaks, and coffee at the Colonial Inn became very popular items, and our reputation as a good place to eat spread rapidly. At one point, we had the distinction of being recommended by Duncan Hines, one of the first fast-food writers and restaurant critics.

During the first two months of operation I was able to develop and train a good staff that I could rely upon. In March, Nancy and I and the two babies drove to Miami to spend a ten-day holiday with Dr. and Mrs. Nichol. I enjoyed going back to our favorite part of the world. Sunny Miami always had a magical appeal, and we were hopeful that someday we could move there permanently. Returning to the restaurant in Wilmington, we found that things had gone very smoothly in our absence. In fact, I was hardly

missed. Sales had been good, and I was pleased with the results. Business was picking up faster than I anticipated, and with profits building up, it appeared that our financial crisis might be over. It felt good to begin paying off some of our debts.

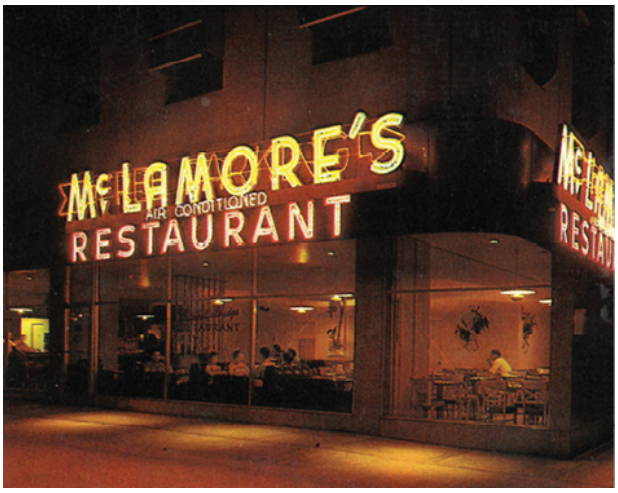
With the Colonial Inn operating on a profitable basis, my confidence level returned. Before long I was deeply involved in developing plans to open a second restaurant. These were pretty heady times for me! The Colonial Inn took in $90,000 in sales during its first year, and out of that I was able to net $15,000, which seemed to be all the money there was in the whole world. These numbers don't seem like very much nowadays, but in the 1940s, this was big time!

The money part of it was great, but so was the sense of accomplishment that came with opening a successful business of my own. I was twenty-three years old when I opened for business, and the success I enjoyed simply reinforced my confidence and determination to become a very successful restaurateur. This was what I was trained for, and this was the only business I knew anything about.

One never knows what is possible until they step out into the foray and try it for themselves. Fear makes you stay unless courage propels you forward. The Colonial Inn whetted my appetite for growing in the restaurant business, and I was anxious to keep moving. I had no idea how far it would take me, but I was ready to give it a try.

Chapter 4

INTO THE SOUP



The Brickell Bridge Restaurant

Life is a learning experience, and as a young person entering the world of business, I always knew that I had an awfully lot to learn. I have often looked back on my first few years and tried to make a note of the mistakes I made and what I might have learned after making them. If I had to counsel young people taking their first tentative steps in a business venture, or even starting a new job, here is what I would tell them.

Try to acknowledge the possibility that you are not as smart as you might think you are. If you think of yourself as too smart, you will probably make some mistakes you could otherwise avoid. You may need your coworkers friendship someday, but you could lose it in an instant by being too overbearing, cocky, or arrogant. A little humility will go a long way. I never knew anyone who learned anything by listening to himself talk.

One of the most important pieces of advice I got came from Harvey C. Fruehauf—who led the Fruehauf Trailer Company during its important years of expansion—was: "Act in haste and repent at leisure." I met Harvey in 1956, and he became a valued friend, business associate, and mentor. His counsel and friendship meant a lot to me, and I often wished that I had known him a bit earlier.

I drove the family to Miami again in February of 1951, when Dr. Nichol was moving his practice from downtown Miami to a new facility called the 550 Building, which was then under construction on Brickell Avenue. It was the first commercial office building constructed on the west side of the Miami River. Dr. Nichol advised me that the new building was looking for a tenant to operate a restaurant on the ground floor. He suggested that I consider the possibilities of leasing this space. I looked at it, but I was a bit overanxious and careless in my evaluation of both the location and the South Florida restaurant market itself.

It was important for me to judge the potential of opening a restaurant in Miami. To begin the process, I ate in a number of busy restaurants that I had heard about. I was amazed at what I discovered. Most restaurants had long lines of people standing out front waiting to get in! After standing in a number of those lines and putting up with frustrating delays in getting seated, I often received poor service and mediocre food. I was unimpressed with the restaurant operations, but what did impress me was the thought that if these restaurants could attract so many customers, then I could make a fortune in Miami. This was a case of quick, impetuous judgment. I had set myself up for the shock of my life.

I was looking for a good excuse to move the family to Miami and, without carefully examining the situation, I signed a lease for half of the ground floor space in the 550 Building and committed myself to opening a restaurant there. The lease provided that I would occupy this space at a monthly rental of $884. I jumped into this deal without taking the time to draw up a business plan, work up a menu strategy, or consider my limited financial resources.

I figured that I could attend to all those details later. Mine was a case of careless examination, arrogant overconfidence, and a lack of judgment. I convinced myself of a couple of things: that Miami was in desperate need of more good restaurants, and that this was a good location. I was dead wrong on both counts.

After signing the lease, I began to think about what kind of restaurant would be best suited to that location. I decided that the restaurant would serve breakfast, lunch, and dinner and stay open from 7:00 a.m. to 9:00 p.m., seven days a week. The layout would include of a soda fountain designed to serve short orders during breakfast and lunch hours. The remaining portion

of the dining area would feature tables, booths, and waitress service. The restaurant would seat a total of eighty customers.

The plan seemed simple enough, but life was about to become complicated. When I returned to Wilmington, I faced the job of finding a manager to take over the Colonial Inn. I needed to do this before I could move the family to Miami. I decided to keep the Colonial Inn because I expected that it would help to pay our living expenses in Miami. Another problem involved selling the farm, and this meant that Nancy and the children would have to remain in Wilmington until we could find a buyer. I planned on returning to Miami in early May after I finished the design for the restaurant. This would give me time to order the equipment and get the business ready to open in early fall.

It was when I returned to Miami in May that I received the shock of my life. The restaurant activity I had witnessed in February was practically nonexistent in May! It had never occurred to me that Miami was a seasonal city that practically shut down during the off-season and summer months. I had made a serious mistake. Miami in the late ’40s and early ’50s was a seasonally oriented destination resort city, heavily trafficked during the winter months and woefully quiet during the rest of the year. February happened to be the peak of the winter season. Many of the restaurants I had eaten in at during my February visit were closed and boarded up for the summer. The locals would say that during the summer months, a person could “fire a cannon down the middle of Flagler Street and not hit anybody.” I developed a real fear about the chances for having a successful opening for my new restaurant. The thought of a possible failure weighed heavily on my mind. This considerable worry was aggravated by the fact that Nancy and the children weren’t with me. I was very lonely, and I knew that it was an equally lonely experience for Nancy. I had put the whole family in a very

difficult position, and I was terribly annoyed with myself. The only good that came out of the situation was that it taught me a valuable lesson.

While living alone in Miami, I had plenty of time to think about the mistake I had made in acting so impulsively about this restaurant project. Long before the restaurant began to take shape, I knew that I was going to have some real problems. The surrounding market and the location itself left a lot to be desired. I was located in a small building with fewer than sixty people employed there. Most of the tenants were doctors whose patients were generally older and not very interested in eating in a restaurant. Most of these people were sick and had other things on their mind. The building would be empty by the time dinner came around, and it would be closed on Saturday and Sunday. The other problems were that I couldn't expect very much business to come from the surrounding neighborhood. There was a real question as to whether or not fast-moving traffic would stop at a commercial restaurant located in an office building. These ended up being valid concerns.

I determined that if I survived this crisis I would be more careful and analytical in making any business decisions in the future.

Fortunately, Nancy was able to sell the farm even though it took several months to do it. I flew to Wilmington and drove the four of us back to Miami in July after making arrangements with a moving company to transport our personal effects to Florida.

The Mackle Company was building new and inexpensive homes by 1951 in the range of $12,000 to $13,500. Purchase of these modern, attractive homes only required a minimal down payment, with very attractive mortgage financing terms available to the purchaser. Nancy and I didn't even have enough cash to make the low down payment, but we were able to lease one

of these new homes and moved into the subdivision in July. We had only a few weeks to get settled before the Brickell Bridge Restaurant opened for business in August.

All of the fears and worries that had troubled me since May proved to be completely warranted. When the restaurant opened, there was very little business and my early promotions were unsuccessful in attracting customers. Faced with very high rent, the fact that my sales were only averaging three thousand dollars per month during August, September, October, and November was enough to keep me in a state of deep concern. I was seriously questioning whether or not I could make a go of the place. There wasn't much doubt that if business didn't pick up soon I was going to go broke. I remember one particular Sunday when we only took in eight dollars for breakfast, twelve dollars for lunch, and ten dollars for dinner. It was a long ride home that night. I was burdened with paying the salaries of two cooks, two dishwashers, and six waitresses. I had made a mistake of monumental proportions, and this began to erode my self-confidence. I was not ready to give up yet, but with a tarnished ego, I looked disaster in the face.

My typical day started by getting up at 5:00 a.m. so that I could be at the restaurant by 6:00 a.m. I cooked the breakfast and typed the luncheon and dinner menus during the morning hours. Acting as the host, I would seat customers during meal hours. As manager, I ordered the food and trained the employees. After the restaurant closed at 9:00 p.m., I stayed alone to mop the floors and wash pots, pans, and kitchen utensils before driving home because I couldn't afford to hire anyone to do these jobs. The high point of my day was relaxing on the screened-in porch of our little house, enjoying a bottle of beer, and talking with Nancy about her day and the children, whom I rarely saw. I was able to relieve some of the pressure by talking to Nancy

about anything that came to mind, but mainly sharing my concerns about the restaurant and the problems we were facing. We needed to talk things out, as we were in this together and our survival as a family business was very much on the line. These quiet but late evenings together gave us the chance to do that.

It was the same routine every day, seven days a week. I didn't take a day off for over a year and a half while I was struggling to make the restaurant a success. Nancy told me that our neighbors thought she was a young divorcée with two small children because they never saw a man around the house. The good news was that, although the Brickell Bridge was losing money steadily, we still had the Colonial Inn making enough money to keep us going. Meanwhile, I was trying to figure out a strategy that would stimulate sales and get us on the road to profitability.

Every day we offered two luncheon specials—one we sold for sixty-five cents, and the other for ninety cents. In each case the customer had a choice of soup or juice, an entrée, two vegetables, rolls, butter, and a beverage. I learned that the price was a big factor in attracting new business, and I did my best to offer reasonable prices and innovative menu ideas. At dinner, the menu had items such as "Golden-Fried Jumbo Key West Shrimp," and "Succulent Fresh Gulfstream Pompano, Broiled to Perfection," which I insisted should be as good as the menu promised they would be. The restaurant was always kept immaculately clean, and I spent hours training waitresses in the subtleties of providing the right kind of service. I did all the purchasing and worked closely with the chef on all aspects of food preparation. The dinner menu was changed daily. The highest price for a complete dinner, which included dessert and beverage, was only $1.80. A large fresh-shrimp cocktail with four jumbo shrimp cost only forty cents when it was ordered à la carte, and for only fifteen cents extra it could be

included when a customer ordered a complete dinner. The value was there but new customers were slow in coming in.

The "season" arrived December of 1951; it brought in the first wave of our long- and eagerly awaited tourist traffic. It lasted through the month of February and brought with it some badly needed sales and profits to help shore up my sagging balance sheet. This was just enough financial support to get me through the winter and into the spring and summer months. When April and May of 1952 arrived, I was faced with the same low sales and the same devastating results that I experienced when I first opened. The summer business was simply terrible, and I began losing money all over again at a rate I could ill afford. I had to do something soon.

That something arrived in the form of a little boy named Charlie Cooper. Since opening the restaurant in August of the previous year, I employed a young boy named Henry Cooper as a dishwasher. Henry was about fourteen or fifteen years old, and I probably paid him no more than the minimum wage, which was around fifty cents an hour. Henry was a very industrious and dedicated employee who had an eleven- or twelve-year-old kid brother named Charlie who accompanied him to work every night. Charlie had an engaging way of approaching me. He usually began with a big smile, tugging at my sleeve trying to coax me into giving him a job. My only response was usually "I can hardly afford to pay your brother, Charlie. I'm terribly sorry but I just don't have anything for you to do." Invariably, Charlie would come back the next day and every following day inquiring if I had found a job for him to do.

One evening when Charlie walked into the restaurant, I called him over and said, "Charlie, I think I have a job for you. I'm going to give you a clean starched-white chef's uniform, a tall chef's hat to go with it, and a dinner

bell. I want you to get out on Brickell Avenue, right in front of this restaurant, and ring this bell." I didn't stop there. "Be sure to smile at everybody going by. I want you to ring that dinner bell as loud as you can. I want people to hear it ring." I told Charlie that I was going to shine two spotlights on him so that everyone passing by would see him. This brought out a big grin that lit up his face. Charlie was delighted to get this job even though I could only afford to pay him fifty cents an hour.

He came every night, got into his white chef's uniform, and with that wonderful smile of his, rang his dinner bell for several hours in front of the restaurant. "Dinner Bell Charlie" became a happening in Miami. He was such a charming, delightful little personality, and the concept was so unique that thousands of people going home at night took notice of the Brickell Bridge Restaurant and this wonderfully new and unique little boy with a big smile ringing the dinner bell. I had finally come up with a clever idea to get the public's attention, but the question was, would this build traffic? I decided to advertise a bargain steak dinner.

I ran a series of advertisements in the *Miami Herald* featuring a picture of "Dinner Bell Charlie" ringing his bell outside of the restaurant. The advertisement read:

JUST A REMINDER

Little Charlie is still ringing the Dinner Bell to welcome you to Miami's greatest steak value.

A full pound PRIME SIRLOIN STEAK for just $1.95

Other Complete Dinners from $1.40

Join the crowd—watch for

LITTLE CHARLIE WITH THE DINNER BELL
BRICKELL BRIDGE RESTAURANT

550 Building
550 Brickell Avenue
Dinner Served from 5 until 9, 7 days a week

PLENTY OF FREE PARKING SPACE BEHIND BUILDING

The price of $1.95 for tender, top-quality steak served with a baked Idaho potato, salad, and beverage just represented my cost. I would be able to do nothing more than break even on each sale. The steak was absolutely first class, and although I knew I couldn't make a profit selling it, I did feel that I could build traffic, which was the most pressing problem. My plan was to train our waitresses to suggest other items such as lobster thermidor, veal parmigiana, fried shrimp, calf's liver, or whatever else I had on the menu, because these other menu items were profitable. With Charlie and our advertising pitching our big-value steak dinner, sales and traffic increased dramatically.

This unique promotion created another phenomenon in Miami. Often at dinnertime, we would have lines of people standing outside our restaurant even during the summer months when many other restaurants were closed and boarded up. The success of this extraordinary promotion even surprised me. The pressure came off when I finally realized that I had a good chance of making it after all. I had turned a losing proposition around by coming up with an innovative marketing idea. I was on the winning side once again and it felt great.

The marketing success was one of the great learning experiences of my business career, and it served me well in helping build the Burger King business. The lesson was a bit of marketing wisdom. You can read about things like this, but you really have to experience them if you want the learning to be indelible. The message and the lesson learned was very simple: If you bring a product or service to market, it needs to be done in a

way that attaches a unique, highly individualistic message along with it. The great steak dinner at a rock-bottom price was appealing, but that wasn't enough to attract a big wave of new business. I had to attract the reader's attention to the advertisement itself. People needed to read what the advertising suggested, and Dinner Bell Charlie did that. He sold the steak, and he told people where they could get it. In addition to that, he invited others to see for themselves what this new personality really amounted to. There would be similarities in building the success of Burger King's Whopper.

Unfortunately, at the same time the Brickell Bridge Restaurant began to perform very well, the Colonial Inn was heading downhill. The manager I put in charge had taken my very simple food-service concept and complicated it by adding all sorts of items to the menu. The result was that our quality had been compromised as an image of a well-managed, short-order restaurant specializing in hamburgers. Sales declined and so did the restaurant's profitability. During the early years of the Brickell Bridge Restaurant's struggles, the profits from the Colonial Inn had kept the wolf away from the family door. Now with that restaurant in trouble, I had to contend with problems caused by the management I had left in charge.

I had the good fortune at the Brickell Bridge Restaurant to meet a young man named Bill Bilohorka. Bill was a recent graduate of the Penn State School of Hotel and Restaurant Management, and one day he just walked in off the street and asked me for a job. With sales at the Brickell Bridge growing steadily, I was able to afford to take him on as an assistant manager, and he did a terrific job right from the beginning. I turned to Bill when things at the Colonial Inn started to go downhill and asked him if he would be willing to go to Wilmington, take over the restaurant, and try to sell it for

me. It was obvious that absentee ownership a thousand miles from home was not working.

The urgent requirement to change management at the Colonial Inn occurred at a most inopportune time. Nancy was pregnant for the third time, and we were still living in our small, rented home. As July of 1953 approached and business at the Colonial Inn continued to deteriorate, I received ultimatums from my manager that I would have to sell the business to him on his terms or he would simply walk out on me. He assumed I was in a situation where I had no other choice.

Just as we reached a critical period in our negotiations, Nancy went into labor and I rushed her to Jackson Memorial Hospital on July 14, where she delivered a wonderful, healthy baby boy on her own birthday. We decided to call the baby Sterling Whitman McLamore. When I went to the hospital, I told Nancy about the situation in Wilmington. I had to leave that night and Bill Bilohorka had agreed to go with me and take over the restaurant. I said goodbye before heading to the airport with Bill. These memories of Nancy's strength and character will always remain closely fixed in my mind.

When Bill and I arrived in Wilmington, I fired the manager and put Bill in charge of the restaurant, confident the Colonial Inn was in good hands. I returned to Miami a few days later. Nancy took on the responsibilities of managing the home and looking after two young girls and a new baby boy as if nothing had happened. I went back to my regular schedule at the Brickell Bridge Restaurant—sixteen-hour days, seven days a week. Business was good and getting better all the time. I kept my fingers crossed that Bill would be able to sell the Colonial Inn.

Of particular interest to me at the time was this new son of ours. I felt bad leaving Nancy alone to look after things while I was in Delaware for a few

days. Ever since we were married, I worked long hours in restaurants struggling to make a success. Our growing family was very important to us, and I was looking forward to spending more time with them.

Bill was fortunate enough to find a buyer who paid us a reasonable sum for the business to close the deal. I retained a young attorney, Andrew J. Christie, newly graduated from law school and just starting in practice, to draw up the papers and effect the sale.

After Bill sold the Colonial Inn, he returned to Miami and rejoined me at the Brickell Bridge Restaurant where business was going well and profits satisfactory. By early 1954, I began discussing the possibility of joining Dave Edgerton, whom I had recently met, in the Insta-Burger King business. For some time, I had been thinking about starting a chain of restaurants myself. Dave's enthusiasm for an idea to establish a chain of limited-menu restaurants intrigued me enough to investigate the matter. I liked what Dave showed me, but it was obvious that I needed to sell the Brickell Bridge Restaurant in order to come up with the capital necessary to get into this new business. It was Bill Bilohorka who came up with the money to buy the restaurant from me during the spring of that year.

Nancy and Bill showed me just how much the right partner could pave the way toward success when one might be floundering on their own. If you're going to take on a partner, trust and a shared vision for a common goal is tantamount to both your successes.

With the sale of both the Colonial Inn and the Brickell Bridge Restaurant, I was ready to take on new and different challenges. I didn't realize that the road ahead was full of potholes.

Chapter 5

STARTING OUT

Dave Edgerton, cofounder of Burger King

David R. Edgerton, Jr. was brought up in the Chicago suburb of Wilmette, Illinois. He attended the School of Hotel Administration at Cornell University and later found his way into the Howard Johnson's organization where he worked his way up to manager status in the Miami area. He told me that he had managed their restaurant located in DuPont Plaza area in downtown Miami at the same time I was operating the Brickell Bridge Restaurant a scant 250 yards away on the west side of the Miami River.

By 1953, Dave was considering the possibility of opening a Dairy Queen franchise. He knew that the margins in soft ice cream sales were high, and he was attempting to learn more about the potential profitability of this business. One of his trips took him to Jacksonville, Florida, during the summer of 1953. Driving on Beach Boulevard in the community of Jacksonville Beach, he noticed a building under construction that looked very much like a Dairy Queen. He stopped in to have a closer look and met Keith G. Cramer and Matthew L. Burns. They informed Dave that this new business would be called "Insta-Burger" and have a menu consisting of eighteen-cent hamburgers, eighteen-cent milkshakes, ten-cent French fries, and ten-cent Coca Cola, root beer, and orange soft drinks.

The concept would be called a *self-service drive-in* to distinguish the restaurant from a carhop operation, which was the usual kind of service offered by drive-ins during that era. Cramer's previous experience was at Keith's Drive-In, a restaurant he operated in Daytona Beach. Both he and his father-in-law, Matthew Burns, were experienced food-service operators, who had recently visited the McDonald's Speedy Service System drive-in located in San Bernardino, California. The McDonald brothers were not new to the restaurant business either. They had established their first carhop

drive-in in 1937. After the war ended, they opened a single very successful carhop drive-in located at Fourteenth and E. Street in San Bernardino.

Although successful, it was turning into a teenage hangout, which tended to discourage a number of would-be customers. Realizing that over three-fourths of their food sales were in hamburgers, the McDonalds decided to redesign the operation, eliminate the carhops, and introduce a new concept which was the idea of self-service. Their focus was on speed of service and low prices. In their rebuilt, but much smaller restaurant, they served a grilled ten-to-the-pound hamburger patty on a bun for fifteen cents. It was dressed with ketchup, mustard, chopped onions, and two pickle slices, their prescribed way of serving a hamburger. Customers could order it any other way at the same price, but they had to wait a long time for their order to be filled.

The McDonald brothers' new and innovative concept of food service caught on rapidly. The quick speed of service appealed to their new customers. Fresh French fries, milkshakes, and soft drinks rounded out the menu. It was a simple matter for the restaurant to deliver quality food along with very fast service, simply because they had such a limited menu. The customer was, in a sense, waiting on himself under the self-service system. This eliminated costly overhead and assured a high margin of profit.

The year 1948 was the watershed year for what soon became known as the fast-food business. Richard and Maurice McDonald were the pioneers who conceptualized an idea which was to take America and the world by storm. Their food-service methods also marked the beginning of the end for the carhop drive-in industry, which experienced such significant growth in the thirties and forties by catering to an increasingly mobile America. After the McDonalds' conception opened and became so obviously successful, the

public became transfixed with limited-menu, self-service restaurant concepts of all kinds. This was destined to forever change the character and style of the food-service industry in both the United States and abroad.

According to the US Department of Commerce, eating and drinking place sales for 1948 totaled $10.7 billion. Forty years later the McDonald's system was generating annual food sales of over $14 billion.

The often-told story of Ray Kroc's introduction to McDonald's makes the point. In 1954, Kroc was an equipment salesman selling a line of Multimixer milkshake machines. The Multimixer was a machine with five rotary spindles that could make up to five milkshakes at a time. To make a milkshake, special stainless steel containers were filled with several scoops of ice cream, some milk, flavoring, and malt. The containers were placed on the spindle assembly where the contents were blended by high-speed mixers to produce a fine-tasting milkshake. Kroc believed that it was most unlikely that a single restaurant operation would require more than one single Multimixer machine. The McDonald's restaurant in San Bernardino had ordered ten of these machines. Kroc was curious about this order and wanted to see for himself why this single establishment needed ten machines with the capacity to whip up fifty milkshakes at a time. He traveled to California and witnessed the phenomenal business McDonald's was doing. He noted that there was always a steady line of people waiting for service and standing all the way out to the street. The food was good, and it was offered at low prices and served in a clean facility. McDonald's customers were served in a matter of seconds. Kroc probably decided right there and then that he had to be part of that.

After considerable discussions and negotiations with the two McDonald brothers, Kroc agreed to become the sole agent for the McDonald's

franchising program. He entered into an exclusive contract with the brothers to perform that service.

The success of the McDonald's restaurant in San Bernardino attracted the trade press, which began publishing numerous articles about this modern-day food-service phenomena. Restaurateurs from all over the country came to California to see what this remarkable new innovation looked like. Before long, the McDonald's operation was copied by restaurant operators in many parts of the country who thought they could create a similar success on their own.

After signing an agreement with the McDonald brothers, Kroc returned to Chicago and opened his first McDonald's restaurant on Lee Street in Des Plaines, Illinois. That historic event occurred in April of 1955. The restaurant was successful right from the beginning.

Cramer and Burns heard about the phenomenal success of the McDonald's unit, and like many others, wanted to see for themselves. They were greatly impressed. While in California they heard about the Insta-Machines which the inventor, George Read, described as machines capable of automating the production of hamburgers and milkshakes. Deciding to examine these machines while they were there, they met Read who demonstrated how the machines worked. They liked what they saw and ultimately entered into a contract with Read to purchase the machines under a licensing arrangement which required them to open restaurants somewhat similar to the innovative McDonald's concept. In collaboration with Read, Cramer and Burns designed a restaurant building similar to the one they had just visited. They felt that their concept would work and hoped that Read's Insta-broiler and Insta-shake machine would give them a competitive advantage in exploiting the opportunity.

The contract with Read established Cramer and Burns as the first territorial licensee and gave them the state of Florida to develop. The agreement gave them the exclusive right to use the Insta-Machines and the Insta- name in their territory. The agreement also authorized them to license others to operate restaurants of a uniform design using the Insta-Machines and the name. For each restaurant opened, Read was to receive a modest franchise fee, his profit on the sale of the Insta-Machines, and a share of the 2 percent royalty fee each of the franchisees were required to pay. Cramer and Burns decided that their first restaurant would be named Insta-Burger, and the building was soon under construction. What they could not have imagined at the time was how much trouble the machines would give them.

The Insta-Hamburger Broiler was something that might have been dreamed up by Rube Goldberg. The machine was about three feet long, one foot wide, and two and a half feet high. It had twelve baskets that held a patty and bun. The baskets traveled around electric calrods to broil them. After one revolution, the patty would slide down a chute into the sauce. The sauce, concocted by Read, Cramer, and Burns, was a hot mixture of ketchup, mustard, relish, and "special seasoning." Upon receiving an order, the operator would lift the cooked patty from the pan of sauce, place it on the bun, then wrap it in paper to serve. Unfortunately, the machine often failed to mesh properly with the chute, which ground it to a halt and shut down operations until repairs could be made.

The Insta-shake machine used a process of flash freezing a liquid dairy mix into a thick milkshake that was really good. The shakes were so thick they had to be eaten with the wooden spoon they were served with. The flash freezing method was a fairly fast process that helped to justify the Insta- name.

The machine was built with two separate refrigerated tanks located at the top. One tank contained a vanilla milkshake mix, and the other one a chocolate mix. In the center of the machine was the freezing cylinder. Over the cylinder was a motor that drove an attached beater assembly. The beater had hinged blades extending down into the freezing cylinder.

When a shake was ordered, the operator pulled a little lever at either the chocolate or vanilla tank. This activated a device that lifted a measured portion of mix and ladled it into an adjoining stainless steel reservoir. From there, the mix drained down a clear plastic tube directly into the freezing cylinder. At the precise moment the mix entered the cylinder, the shake machine operator threw a switch on the motor to activate the beater assembly. This had the effect of throwing the liquid mix against the stainless steel freezer cylinder wall where the mix froze and thickened instantly while the beater blades scraped the product off the cylinder wall and extruded it into a paper cup positioned at the bottom of the assembly.

If the ladle had picked up the right amount of mix, the cup would be full. Unfortunately, it didn't always work out that way. If the ladle had picked up too much mix, the cup overflowed and left a mess to clean up. If too little mix entered the cylinder, there was a need to jostle just enough additional mix for another run-in order to fill the cup. Usually that exercise resulted in drawing too much mix, which created still another mess. We tried not to talk about slightly discolored vanilla shakes, produced after a chocolate had been run, which were referred to internally by employees as *mochas*. We just hoped the customers wouldn't object.

Notwithstanding all of the problems we encountered in using the Insta-shake machines, the product was really exceptionally good. It had a velvety smooth texture, and it was quite cold and never grainy. Thanks to the unique

process, the shake was produced with a very small overrun, which is a term used to describe the amount of air that is incorporated into a milkshake. Very little air was beaten into this product which made it much more palatable than shakes made today on the modern batch-type milkshake machines.

When Cramer and Burns were building their first Insta-Burger restaurant in Jacksonville, they met with Dave on several occasions. He had spoken to their regional manager and obtained approval to serve hamburgers in his planned Dairy Queen store. When he met Cramer and Burns, the foundation had already been poured on the building he had in mind. After looking over the Insta-System, which planned to sell milkshakes, French fries, and hamburgers, he abandoned the Dairy Queen idea in favor of joining Cramer and Burns.

Before the restaurant opened, Dave suggested that they change the name from Insta-Burger to Insta-Burger King. He also drew a picture of a king character sitting on a hamburger with his arms around a milkshake and gave the sketch to Cramer and Burns with the suggestion that they use it as a trademark. The restaurant later opened as Insta-Burger King, with a sign featuring the king on the bun sitting on top of a pylon that extended vertically twelve feet above the roof of the building. The Insta- name was prominently displayed on the front fascia of the building, and the name Burger King appeared just beneath it.

The agreement with George Read was changed to provide that the name of the restaurants opened in future would bear the name Insta-Burger King. It also provided that the king on the bun symbol, along with the name Insta-Burger King, would be used as trademarks and service marks. These were already registered in Washington by Cramer and Burns. Dave expected

nothing in return, and he received nothing. This first use of the Burger King name was destined to become one of the most popular and widely known brand names in the world.

Dave contracted with Cramer and Burns to build the second Insta-Burger King drive-in restaurant in Miami. In contemplating this, he realized that he needed additional capital if he was ever to expand this business concept any further. He felt that operating just a single self-service drive-in wouldn't make economic sense. He set about attracting a partner who could help supply additional capital and assist him building the business. Returning to Miami, he went to see Harvey Fuller, who owned a restaurant on Flagler Street. Harvey was one of Miami's better-known restaurateurs, whom I went to see when I was building the Brickell Bridge Restaurant. It was Harvey who encouraged me to join the Miami Restaurant Association, where I was later elected president. Harvey took a serious look at Dave's idea, and although he was attracted by it and thought the idea had some promise, he wasn't inclined at his age to invest in an unproven business concept of this sort. He suggested that Dave talk to me about it. Dave took the suggestion, and this resulted in the two of us getting together.

Dave opened his Insta-Burger King on March 1,1954, at 3090 NW 36th Street in Miami. The building and the paved parking lot cost $13,000, which gives some idea of the modest nature of the facility. Dave didn't have the means to build this building by himself, but he was able to convince the owner of the property to build it and lease it back to him. Dave's Insta-Burger King was the second restaurant using that name, but it attracted only a modest amount of interest from the public, averaging sales of less than one hundred dollars a day. The Insta-Burger King concept was a novel experiment in food service at that time, and the public simply wasn't ready

for it. Even so, Dave felt confident that in time the public would become familiar with it and that business would ultimately pick up.

Prior to this time very few restaurants in the country offered self-service as a way of serving customers. This system required customers to come up to an ordering window, pay in advance, and wait for their order to be filled. Food was placed in paper trays or put in paper containers and paper bags. In the early 1950s this was a completely new and different style of service unfamiliar to restaurant patrons. After being served, customers had an option to eat in their cars or on seats provided on an open patio adjoining one side of the building. In 1954 in Miami that idea was unproven, unfamiliar, and unpopular. Business continued to be slow, but Dave was intrigued by the idea of a restaurant with a limited menu, fast service, and low prices. His enthusiasm was very evident on those occasions when we had dinner together at my Brickell Bridge Restaurant. He stopped by often during the time his new restaurant concept was getting ready to open.

As we came to know each other better, Dave stepped up the pressure to join him as a business partner. He had invested almost all of his available capital in opening this first store. I must admit that the idea did intrigue me. I had sold my first restaurant, the Colonial Inn, a few months earlier, and for the first time in my life I had a little capital available. I thought carefully about the implications of joining him as a business partner.

The Brickell Bridge Restaurant was doing well at the time, but it was obvious to me that this purely commercial-type restaurant could never be developed into a multi-unit chain operation, and that was really what I had in mind. With Dave continuing to insist that I come out to see his new Insta-Burger King, I sensed that this might be an opportunity worth looking

into. I accepted his invitation and agreed to take a look at it whenever he opened for business.

One evening in April, Nancy and I drove out to 36th Street to meet Dave and see what his new enterprise was all about. I was intrigued with the cleanliness and brightness of the place, but what attracted me the most was the simplicity of the operation. I couldn't help but agree with Dave that this idea had the potential to be developed into a chain of restaurants. After our initial visit, Dave stepped up his persuasive appeal to join him in this venture. I liked Dave and thought that we would make a good team and enjoy a compatible working relationship. My problem was coming up with the capital necessary to match Dave's investment. This would require that I sell the Brickell Bridge Restaurant, and this in turn would shut off my source of income.

From the beginning we spoke in terms of making equal investments so the two of us would become equal partners. I thought this was a reasonable and fair approach, but first I needed to confirm what Dave had told me about his capital investment and the profitability of the business. I asked him to let me look over whatever financial records he had in this regard. I planned to match whatever investment he had made, so information of this sort was necessary before I reached a final decision.

One must understand Dave Edgerton a bit in order to appreciate the fact that here was a guy who never focused very much on details, particularly those concerning financial matters. Accounting, financial issues, and money matters simply didn't interest him. Dave was a highly creative and extraordinarily bright person, predisposed to think mostly in conceptual terms. He told me that the business, even with low sales, was making a respectable profit.

He had only been open for six or seven weeks and said, "Jim, I don't have a financial statement or a set of books. I have been accumulating sales information which shows how much money we have taken in each day, and I can show you what I have paid out and let you look at my checkbook, but I haven't got a profit and loss statement or a balance sheet to show you." I said, "Dave, why don't you just gather up whatever records you have and deliver them to my accountant, Hugh Shillington, who is a CPA. He can prepare a financial statement for you. This should affirm the level of investment you have made in the business, and it should also show you how profitable the business has been since you opened."

This was acceptable to Dave, who had previously told me that the business was already profitable, although he didn't have the exact figures to prove that. Citing the restaurant's ability to deliver low labor costs, he speculated that the operation was producing a profit of close to 28 percent of sales. I could hardly believe that this small business could produce such a high margin of profit on such limited sales, but I did accept the idea that this was a profitable business. Dave delivered his "books," which were papers of all kinds stuffed in a peach basket, a container he had picked up from the local produce market. He simply threw in his sales records, checkbook, and various invoices representing the purchase of his equipment, bills representing pre-opening expenses, and miscellaneous expenses he had incurred in opening and operating the business. Several weeks later Mr. Shillington presented a financial statement on David Edgerton—sole proprietor and owner of the Insta-Burger King business located at 3090 NW 36th Street, Miami, Florida. The statement was at considerable variance from Dave's estimate of the operating results. Not only was he *not* making 28 percent profit on sales, the report stated that he had actually lost 56 percent on the sales he had been able to generate up to that point.

Why was I willing to invest in a business that was reporting such dismal results? The answer is that the financial statement covered only a very brief period of time and it involved a lot of start-up expenses that tended to distort the picture.

I was willing to look at it that way, but I was really more interested in looking at the character of David Edgerton and asking myself if this fellow would make a good business partner. I was completely satisfied on that point, so I was willing to trust my instincts as far as Dave's integrity and his commitment to the business were concerned. My major focus was on the business concept itself, and I liked what I saw there. The Insta-Burger King idea was a simple food-service concept that with adequate sales could easily be expanded into a multi-unit chain of restaurants. This was exactly what I was looking for. I could see that there were a number of operational problems to iron out, but the simple menu, low prices, high margins, and fast service were all ideas that made a lot of sense to me. I was ready to put everything I had on the line and join up with this very intelligent and interesting individual.

The financial statement from Hugh Shillington showed that Edgerton had made an investment of approximately $20,000 in the business. This was consistent with what Dave had told me. I agreed to match that capital, and on June 1, 1954, three months after Dave had opened his first Insta-Burger King restaurant, we formed a corporation called Burger King of Miami, Inc. This new company took title to Dave's proprietary assets and assumed all of his business liabilities. We issued 50 percent of the stock to each of us. Our statement showed that we had invested $40,000 and owned one Insta-Burger King restaurant. After investment, we had enough cash, if levered properly, to open a few more restaurants. We had a record of losses on the books, but

aside from that we had confidence in the prospects for growth and expansion.

Recognizing the opportunity put in our paths motivated us to push forward in spite of the potential shortcomings that could be in store. We had the passion, enthusiasm, and the capital to move ahead. The lesson would be not to let a narrow perspective or former track record deter us from pursuing that opportunity.

Chapter 6

INTO THE SOUP...AGAIN

Original Burger King pre-1957 and the creation of the Whopper

The decision to join Dave and invest in the Insta-Burger King business was among the most crucial business decisions I had ever made up to that time. I had no way of knowing whether this novel concept of food service would catch the public's fancy or be successful. To me it was starting out all over again with the same fears and anxieties that had attended the opening of the Colonial Inn and the Brickell Bridge Restaurant. While I believed the concept would work, the nagging question was: could the business succeed? Could the two of us make a success out of building a chain of restaurants using this self-service concept and two screwy and temperamental machines? This wacky idea had never been tested in the marketplace. Like I had done so many other times in the past few years, I was putting all my available capital on the line and risking everything on the assumptions that we could make a success out of a completely new and still unproven business idea.

Looking back, I had to question my judgment. At the time I had a net worth of just a little over $20,000, all I had been able to accumulate after being in business for almost five years. Now I was betting the whole bundle on something my instinct told me was okay even though I knew very little about this new and untested business. Nancy and I had just bought a new home, which was heavily mortgaged. With three small children to support, it was risky to take on such a heavy financial burden. I had very little backup capital; I was in a fifty-fifty partnership with a person I liked and respected but about whom I knew very little. As it turned out, Dave and I got along wonderfully. At least on that score, my instincts were good. We had differences of opinion and a few disagreements from time to time, but we enjoyed an exceptional relationship over the years and became close personal friends as a result.

Dave and I discussed how much each of us should draw from the business. We reached a decision that I would draw $12,500 per year, and he would draw $10,000. Dave could see that with a new home and a family of five to support, my financial needs were greater than his. I genuinely appreciated his thoughtful, understanding, and unselfish attitude.

Soon after forming our corporate partnership, we arranged to build two more Burger Kings. Without financial means to develop real estate, it was necessary for us to convince investors to acquire land and build our single-purpose building on lease-back arrangements. The early Burger King buildings looked similar to soft-serve ice cream or root beer stands. The buildings cost around $15,000 and the land averaged about $25,000, so a real estate developer willing to take a chance on us had to make an investment of $40,000. If the business failed, the building would be of little use to a lender, the developer, or anyone else. There was a good amount of risk involving for everyone, including us.

We convinced two different property owners to build two restaurants for us in Miami. The first one at 6091 SW 8th Street and the second one at 8995 NW 7th Avenue. There was nothing spectacular about either opening, and this was very discouraging to us. Both restaurants had uncovered patio areas for customers, but most preferred to eat in their cars. We opened our fourth store on US Highway 1 in Homestead. It was a long way from Miami, but the owner of this site was willing to have us build a Burger King store there.

Sales in all the new stores turned out to be very disappointing. In addition, the Insta-Machines were continually breaking down and causing serious business interruptions. This put us face-to-face with some serious financial problems. Our monthly operating statements told a grim story that we were losing money and losing it fast. The public seemed to be indifferent to our

concept, and we couldn't figure out the reason. It looked like we weren't going to make it. Dave and I were shaken as 1955 drew to a close. We were up against a financial wall, and we knew it. We needed to do something, and soon.

There was a bright side in my personal life, however. 1955 was a special year for our family. On September 3, Nancy delivered our fourth child, another little girl whom we named Susan Evans. Little Susie soon became the centerpiece in our home. She had three adoring siblings and two very proud parents to look after her. Pam was almost eight years old and already in third grade. On the day Nancy came home from the hospital with Susie, Lynne went off to school on her first day in first grade. She would be six years old in just a few days. Our two-year-old son, Whit, was still at home and required the constant attention that any active child of that age would demand. The family was in great shape, and the addition of little Susie brought us even closer together. I tried not to let my business disappointment affect our family life. That was the one thing I had to hang on to, and Nancy, as expected, led the way.

While I was facing worries and fears of a business that was in real trouble, Nancy, in her typically energetic and positive fashion, continued to provide a happy and comfortable home for the six of us. How she managed to run a household on my meager salary of $12,500 less taxes is a real tribute to her common sense and frugal nature. She had no help, cooked all the meals, did the shopping, and looked after the house and children. It was a monumental task for any person, and she accomplished all of it with an ease which was uncanny. She always had a way of appearing happy, buoyant, and upbeat to anyone who was around her. This attitude of her was reassuring to me at a time when Dave and I were desperately trying to put the company on a profitable course.

We began calendar year 1956 in terrible financial condition. The opening of the first four Burger King units was driven by our ambitious optimism, but we had used very poor business judgment in a number of different ways. We had spent my entire $20,000 capital contribution and had assumed additional debt, which by this time was threatening to overwhelm us. We had overexpanded in the hope that four restaurants would be profitable. Unfortunately, this wasn't the way it had worked out. All four of the restaurants were unprofitable, so we had big problems to deal with.

At this point we had to get out and find some capital to support the business. By the spring of 1956, Dave and I had been business partners for over eighteen months, and we were going nowhere. We were dead in the water, and with losses piling up. Sales were flat to negative, and we were struggling to figure it out. The good news was that our spirits remained undaunted. We believed that somehow and, in some way, a magical event would happen to lead us out of the trouble we were in. For the moment, our mission was to save the company. To do this we would need additional investment capital. We began our desperate search.

Chapter 7

THE DESPERATE SEARCH FOR CAPITAL

Inside an early Burger King

As 1955 drew to a close, it was clear to Dave and me that we were in serious financial trouble. Nancy's father, Dr. Nichol, tried to help us by investing $3,750 for some stock in the company, and he loaned us an additional $10,000 at 6 percent interest. Fortunately, over time, we were able to pay him back, and as a thank you, gave him some stock options which helped his retirement portfolio.

In 1956, with the opening of each new Burger King, we hoped that business would pick up and improve, but that never did happen. Things continued to get worse and the prospects for failure loomed larger. We tried everything in a desperate attempt to figure out what we were doing wrong. It was apparent that most of our problems involved the Burger King system, which we had inherited from Jacksonville's Cramer and Burns. The Insta- equipment was troublesome, inefficient, and unreliable. As a result, we were unable to maintain the quality of our food and service on a regular basis. Things were just not right. Our menu was acceptable, but it was also a bit ordinary, and very little about it was unique, special, or noteworthy. In retrospect, we were just run of the mill.

The major problem contributing to our low level of sales in South Florida was the fact that we couldn't get people excited about our system of low prices, a limited menu, and fast service when we were having so many problems with the food we were serving. I was aware that our competitors were generating much higher volumes in units they were operating in states outside of Florida. It was difficult to understand why they were so successful when we were having such a difficult time trying to do the same thing as they were. Everything seemed to be focusing on production problems and the quality and delivery of our food. When Burger King units were opened in other parts of Florida, their disappointing sales were similar to our own. I attributed some of our problems to the fact that the Royal Castle

organization in South Florida had won excellent public acceptance and top-notch customer loyalty largely as the result of an effective advertising strategy.

Later on, I came to believe that our initial menu pricing strategy was never on target. Our competitors were selling a small hamburger for fifteen cents, while we were charging eighteen cents. In the markets we served, eighteen cents was not viewed as an exceptional value. I believe that one of our biggest mistakes at the time was staying with our higher-priced hamburger rather than offering one that we could design and sell for fifteen cents.

Fifteen cents was a magic number in those days, and Royal Castle and McDonald's were living proof of that. It was a small consolation, but the competition, which followed us into the Florida market, fared worse than we did. Golden Point, Henry's, Red Barn, Burger Castle, Biff Burger, and numerous others came into the market and lasted a short time before going out of business. Even highly successful chains like Hardee's and White Castle made early attempts to penetrate the market, but all of them were forced to withdraw. Florida was a tough, competitive market, and starting a business like ours was a difficult undertaking for anyone—even those who had the experience, capital, intelligence, and courage to give it a try.

Many families and customers of all ages perceived that inexpensive hamburgers could not possibly be wholesome. We had to work hard to overcome that concern. Another problem was with our pay-as-you-order system. This troubled a lot of new customers and made many of them uncomfortable. In order to understand how customers responded to our self-service system, I often sat in my car, which I would park across the street in order to observe their reactions.

I learned that our system of service, which was new at the time, confused and irritated a lot of our customers. They were very concerned as to whether or not our employees could remember their order once they had paid for it. The Insta- ticket system contributed to the problem.

For control purposes we had set up a system where, after paying for their order, our customers received serially numbered tickets. They would then wait before receiving their food. Customers did not seem to know what the tickets were all about. For example, a customer ordering two eighteen-cent hamburgers received two blue eighteen-cent tickets. An order for ten-cent fries was worth one white "fry" ticket. Red "drink" tickets were issued for soft drinks and so forth. Customers often stared in disbelief upon receiving tickets in exchange for their money. A typical reaction was an incredulous look which I interpreted to mean "Look I paid for food, not tickets, what do I do with these tickets?" To add to the confusion, after paying and receiving tickets, the customer was directed to another window where an employee was supposedly ready to deliver the order. Often it was necessary to ask the customer to repeat the order. This added more pressure to an already difficult situation particularly when the customer couldn't remember what had been ordered in the first place.

The theater ticket idea was a terrible creation, and it soon became obvious that the entire system had to be changed. We stayed with this Jacksonville system much longer than we should have. We eventually changed it, but not before we had alienated a lot of new, first-time customers.

It was becoming increasingly obvious that Cramer and Burns did not have a grip on the service problems, food quality, or the production problems. We were not giving our customers what they expected, and we were paying a heavy price because of it.

Dave and I decided that if we were going to live with the system, we had to speed it up and eliminate the service confusion. We devised a system, which enabled us to deliver the customer's food within seconds of their placing an order. We were very sensitive to our customers' demand for faster speed of service and this became our major focus in developing an improved product delivery system. The success of our business still depends to a very great extent upon how fast and accurately we can deliver food to our customers.

I coined an expression in the 1950s, which I posted in the restaurants. It simply stated: "Our customers have two things to spend—time and money—and they would rather spend their money." I used that expression often in our early training sessions and in our attempts to emphasize the importance of fast service.

The Insta-Machines turned out to be a complete and utter disaster. I have previously described the temperamental nature of the machines, but one incident involving the Insta-broiler needs to be told. During our first year in business, Dave had just finished adjusting the temperamental Insta-broiler before opening. After running smoothly for an hour or so, the machine began to malfunction just at the moment Dave was standing in front of it. When he heard the gnarling and twisting sound of metal on metal as the machine ground to a halt, he went into a fit of rage. Acting more in frustration than anything else, he reached into his toolbox and grabbed a hatchet, which had been his as a Boy Scout. The name on the handle spelled out "Davy Edgerton." He was so upset that he drew the hatchet back and sunk the blade into the stainless steel machine, destroying a good part of the working mechanism. Dave yelled, "I can build a better machine than this pile of junk," which prompted my response, "Well you better get busy and build it because right now we are out of business until we get our only spare machine in operation."

Dave, true to his words, did build a better broiler. He took his idea to a Swedish-born mechanic named Karl Sundman, who had a well-equipped machine shop. Three weeks later the pair finished production of a continuous-chain broiler that was efficient, fast, productive, and trouble-free. To this day, that basic design principle still sets the standard for all Burger King broilers, and it served as a model for the manufacture of restaurant equipment used in operations similar to our own.

Cramer and Burns sold other franchises during the mid-1950s, opening stores in Hollywood, Ft. Lauderdale, West Palm Beach, Melbourne, Ft. Pierce, Tampa, Orlando, and, of course, in their own Jacksonville area. These new franchisees experienced the same sales problems and financial difficulty that we were having. All of us were trying to hold on until we could figure out some way to "jump start" the business and put it on the road to higher sales and profitability. With stagnant sales and losses piling up, we began to think that all of us might have made a mistake to get into the Insta-Burger King business.

Our financial commitment was such that we had no choice other than to stick with it and see it through. With the constant and lingering threat of failure staring us in the face, we hoped the future would bring in new ideas and improvements that would lead us out of the woods. Time was running out and the two of us were pretty desperate.

Both of us felt that by attracting additional capital we might be able to grow out of our four-store base and into profitability. Our plan was to build more restaurants so that we could advertise and promote the business in the Dade County area. Dr. Nichol understood our need to raise more capital and he tried many times to introduce me to a number of friends and patients in the hope that one or more of them might become interested in an investment in

our struggling business. Dave shared my enthusiasm for expanding the business even though we both knew that in attracting more capital we would have to dilute our own equity ownership position.

Early in 1956, with our capital almost depleted and the company at or near insolvency, Dr. Nichol hosted a cocktail reception at his home so that I could meet Harvey C. Fruehauf and his wife Angela. Mr. Fruehauf had been the driving force behind the development of the modern-day Fruehauf Trailer Company in Detroit. He had retired from the company in 1950 and was living in Miami Beach recovering from a recent heart attack. We had a delightful visit that evening. Harvey was a man who loved to talk about business, and based on his reactions to our conversation, it was clear that my story about Burger King had piqued his interest. He asked some good questions about my background and my experience in the restaurant business. I told him the whole story.

During our conversation he put a direct question to me, "Well son, how are you doing?" I told him that we were doing very poorly at the time and explained the problems we had run up against. I offered to show him the company's balance sheet, which I had in my pocket, saying that this would tell the whole disappointing story. Scanning our financial statement, he could see our grim situation immediately. Dave and I had invested $40,000 in the business, but our losses to date had just about wiped out all of that capital. He could see that we were broke. I told Mr. Fruehauf that we were having difficulty paying our bills but at least for the moment our suppliers were being patient. I explained that we needed more capital if we were going to survive. I emphasized that additional capital would help us strengthen our financial condition and enable us to build more restaurants. I spoke about building an advertising and marketing program to help turn the business around.

Harvey said, “Well son, you look like a young man who knows what you want to do. I might be willing to invest with you. What amount of capital do you suggest I put in?” I asked him to consider putting in $65,000 and suggested that in return we would give him a half interest in the business. Dave and I would hold the other half. Without hesitation, Harvey stated his willingness to make an investment on the terms I outlined. I was overwhelmed by both his quick decision and the prospect of having this man as a partner. The additional capital would save the company from going under. We agreed to meet a week later at the office of Lon Worth Crow Co., a mortgage banking and real estate firm that had helped us secure some of our locations.

We met on April 30, 1956, to close our deal. Harvey, who had subsequently challenged himself on the wisdom of investing in a business he knew very little about with two young men he had recently met, asked to examine our balance sheet once again. I passed the statement over to him and watched him intently. His eyes fixed on the lower right-hand corner where the capital account verified that Burger King of Miami, Inc. was almost insolvent. Appearing a bit perplexed, he looked up at me and said that, although this was a pretty risky investment, he was willing to do this out of his sense of confidence in the two of us. He then signed a check for $65,000 and handed it to me. As far as I was concerned, this was a huge sum of money that could well be the break we were looking for.

This extraordinary happening began an important chapter in my personal life. From this point forward, Harvey became my very good friend and mentor, and this lasted until his death in 1968. His friendship, advice, and counsel were very important in the development, growth, expansion, and success of Burger King during those early, difficult, yet exciting years. Harvey never played an active role in the business, but he always made

himself available. His patience and understanding were qualities that helped us think through the strategic decisions which would later provide the basis for our extraordinary growth and prosperity.

I like to believe that the personal relationship we shared was as important to him as it was to me. He was a thoughtful and considerate man who was a good judge of character. I was fortunate to have shared so many years with him and had the benefit of his wise counsel.

Harvey's investment in Burger King, like both Dave's and mine, nearly went on the rocks at one point, but ultimately all of us came out big winners. Harvey believed in "putting all his eggs in one basket and then watching the basket." He had lots of pithy sayings like that. He also had plenty of earthy and practical advice. I learned a lot from him, not only about proper and acceptable business principles and practices, but also about the importance of proper and ethical conduct.

I'm sure that Harvey could have lost his $65,000 investment and never missed it. I'm also certain that he enjoyed seeing his investment in Burger King multiply to the extent that it did. By 1967, when we merged with the Pillsbury Company, his investment was worth close to $10 million; by including dividend accumulations, the intervening success of the Pillsbury Company and later the investment of Grand Metropolitan in its acquisition of Pillsbury was worth more than $100 million. Harvey would have enjoyed that—not so much because it represented a lot of money and an extraordinary return on his investment, but because he would have liked that he had gambled his faith and judgment on his initial instinct and had won! I suspect that his real pleasure would have been in reflecting on our early growth and development, when the company was in its infancy and struggling to find its place in the world of commerce and industry.

Using the capital contribution originally supplied by Mr. Fruehauf, Dave and I set out to build three more Burger King restaurants. The opening of store number five gave us a badly needed boost in morale because the volume of business at that location was superior to any of the original four stores we had opened, though our sales in stores six and seven proved to be very disappointing. As hard as we tried, we just could not seem to increase the level of store sales. Now with seven restaurants open and operating at unacceptably low levels of sales, we began losing money again, and there seemed to be no reason to expect that we could alter this situation unless we came up with a different and novel way to run the business. It sickened me to think that we had invested all of Harvey's capital and had come up with so little to show for it.

I had suffered the indignity of a number of failing experiences during my business career up to that point, and it was devastating. These ill-conceived business ideas on three separate occasions had brought me close to bankruptcy. The way things were going now, it looked as though I might be faced with going broke for a fourth time. My confidence and self-esteem were at low ebb. At what point would it be time to step back from the precipice altogether?

Perhaps I was too arrogant and cocky. I had become a great success at age twenty-one during my first job at the YMCA—so much so that I decided to switch jobs into an unworkable situation. My success at the Colonial Inn restored my confidence, but I suffered new disappointments at the Brickell Bridge Restaurant and nearly failed again. It was my initial investment in Insta-Burger King that brought me face-to-face with going broke a third time.

I kept Harvey informed about everything we were doing. I shared our disappointment about the health of the business and told him how badly things were going. I had failed to produce the promised results and that was killing me. We had invested Harvey's capital in three new stores in the belief that this would help our business turn the profit corner, but this was not the way things were working out.

Looking back on this situation, it is undeniable that we had exercised very poor business judgment. I had a long record of doing that. Optimism replaced good sense, and instead of taking some of Harvey's capital and paying down our overwhelming debt, we plowed everything into building three more stores.

Approaching insolvency again, our financial plight grew more serious with each passing day. Sharing my concern with Harvey one evening, I explained that my greatest disappointment was the possibility of losing the money he had invested. I valued the confidence he had placed in me and it troubled me deeply that we might prove unworthy of his trust. He told me that he was more worried about me than he was about himself, and he encouraged me to think positively about my life and the future prospects of the business. He made a point of telling me not to worry about him, suggesting that if I continued to look forward to the future and read the Bible and pray for a little for guidance, things would work out for the best. It was in these moments of great personal dismay and discouragement that Harvey gave me the boost and support that I needed. I would never forget this side of the rewarding personal relationship I enjoyed with this fine gentleman.

In times of great tumult, the kindest gift entrepreneurs can give themselves is positivity. It's impossible to run a race while carrying an anchor, and disappointment and self-recrimination are some of the heaviest anchors to

shoulder. Learn from your mistakes and stick to your convictions in spite of the odds that seem to be bringing you underfoot. Maintain your confidence. Negative thoughts produce negative results.

Chapter 8

THE WHOPPER IS BORN

Classic Burger King on 61st Avenue with the famous “King on the Bun”

Dave and I were constantly thinking about how we were going to turn our desperate situation around. The whole Burger King system had stalled out. Cramer and Burns had encountered plenty of difficulty on their own. The five franchised Burger King stores they helped establish in Hollywood, Ft. Lauderdale and Palm Beach were doing worse than we were and the situation was not much different in Tampa and Orlando. Their own Jacksonville restaurant operations were not doing any better either.

Dave and I were forced to recognize that the Burger King system lacked any real zip at all. It certainly did not have any significant customer appeal. Early in 1957, Cramer and Burns opened a prefabricated Burger King restaurant in Gainesville, Florida. It was located near the University of Florida campus. Their idea was that a prefab building could be moved to another location if it wasn't successful in the original spot. This defensive experiment served no useful purpose for improving the overall system. It did however, lead to our making the most important decision we made since opening for business three years earlier.

Shortly after this prefab unit was installed and opened, Dave and I stopped by to see it during a return to Miami from one of our many visits with Cramer and Burns in Jacksonville. During the few hours we spent there, neither of us saw a single customer enter the restaurant. Looking for something to do, I walked out of the new Burger King and glanced a block or so up the street. Less than a hundred yards away was a drive-in restaurant that had a line of customers standing out front waiting to get served. I noticed a sign advertising a big hamburger, so I decided to walk up the street, have a look, and get in the line. The restaurant was run down, dirty, and the appearance of their serving personnel left a lot to be desired. The parking lot was unpaved, so dust blew in as cars drove about, making it unpleasant for the people who were either standing in line or sitting in their

cars. The door to the men's room, which was located on the outside of the building, was barely hanging on one hinge. The place was a mess, but I kept looking at the long line of customers waiting to buy their food. Why were these people crowding the place when a hundred yards down the street the new Burger King had absolutely no business at all?

Standing in line, I noticed that the customers who were just served were carrying out bags containing some of the large hamburgers. I ordered two of them, one for me and one for Dave who was still down the street. I unwrapped this big hamburger and saw that it consisted of a quarter-pound hamburger patty on a big five-inch bun served with lettuce, tomatoes, mayonnaise, pickles, onions, and ketchup. After a few bites it wasn't hard to understand why these customers were carrying them out by the bagful. The hamburger was big, and it tasted great. I walked back down the street to the new Burger King still munching that big hamburger and carrying the other one for Dave. I was impressed with how good it tasted and I wanted to get Dave's opinion. The new Burger King still didn't have any customers, and Dave, with nothing more important to do, unwrapped his hamburger and enjoyed it as much as I had. It was at that point that I began to get an idea that would have the most important effect on our business.

After Dave and I had seen enough of the new prefabricated Burger King, we got in the car and headed south toward Miami and home. Dave always did the driving on our many trips around the state. I had a small bottle of bourbon in the glove compartment and so I poured a little of it into a 7 Up I had just bought at the gas station. All I could think about was that big, good tasting hamburger I had just eaten, and the more I thought about it the more enthusiastic I became about an idea that was building up in my mind.

Feeling in an expansive mood as we were driving through the little community of Micanopy, it occurred to me that it might be a good idea to introduce a big garnished hamburger in our Miami restaurants. I expressed this opinion to Dave, who quickly agreed. I suggested that we call our product a "Whopper" knowing that this would convey imagery of BIG. I also suggested that we put signs saying "Home of the Whopper" under our Burger King name to indicate that our new product was the specialty of the house. We both agreed that this made a lot of sense. We arrived in Miami long after midnight, tired but excited about our plans to add the Whopper to our menu.

As soon as we could, we arranged to change the roof signs on all seven of our restaurants. Within days we set wooden A-frame signs out in front of each store, which read "New, Whopper Hamburger, thirty-seven cents." Dave and I thought that the thirty-seven cents along with a two-cent sales tax would keep the Whopper priced just under forty cents, which we believed might be close to the price-resistance level. We raised the price to thirty-nine cents a few weeks later. At the time we couldn't possibly have imagined that someday in the future this product would become the most popular and best-known sandwich in the United States—perhaps in the world.

We wrote product specifications for the Whopper, and all seven of our restaurants began serving the new sandwich within a few days of our return. From that day forward our business began to improve. The Whopper was a stunning success from the moment it was introduced. This was the break we had been looking for. We had found the key to our future success. We just knew it.

The introduction of the Whopper came about the same time that we replaced the unreliable Insta-milkshake machines with a new batch-type Sani-Serve shake machine. Dave's new broiler invention not only increased the speed of our food production line, it also enabled us to cook the Whopper patty right alongside our regular patty. Had he not invented this broiler, we would have been stymied in bringing out the Whopper. The two new machines helped us improve the overall productivity of our employees, but what was most important was the customer approval of our much faster service. The introduction of the Whopper had an extraordinary effect on our business, and our rapidly growing customer base gave repeated assurances that everything was going to work out, finally.

Even before the historic introduction of the Whopper, we no longer looked to Jacksonville for leadership. The few statewide franchisees that were in existence had long since turned to us for guidance and direction. We were the only source of innovation and change that was so desperately needed in our struggle for survival. The introduction of the Whopper was just one of many creative ideas we had come up with in trying to improve our business, but this one would turn out to be our real salvation. Dave and I told Cramer and Burns that we were getting rid of the Insta-Machines and their notoriously ineffective ticket system and informed them that from this point forward, we would be writing our own specifications for food products and equipment.

We also let them know that we would set our own standards for restaurant operations, and that in the future we would design our own buildings as well. Our Manual of Operating Data, created by Dave Edgerton, became the bible for governing our restaurant operations. We concluded that we no longer needed support from Jacksonville and we told them so. They understood this and even seemed grateful to have us assume this kind of

leadership. With all the innovative changes we were making, it was clear to everyone concerned that from now on the future new direction of Burger King would come from Miami. With our restaurants around the state now serving the Whopper, the Insta-signs came down and we became known simply as Burger King—Home of the Whopper.

As the months passed, our business activity and sales picked up at an astonishing pace. Dave and I gained much needed confidence in our future.

On Their Partnership

"Jim and I were great partners. I did the traveling. Jim handled the mortgaging and banking. I would find the locations and come back with data, and he would try to get the financing going. I did the operations and the installations and eventually built the commissaries. We had a huge manufacturing plant to assemble all of our equipment and building components, and it seemed necessary in order to get the job done."

Dave Edgerton, *FLAME Magazine*

Chapter 9

EARLY FRANCHISING

Jim and the first franchisee, Charlie Krebs

After our introduction of the Whopper, the company became embroiled in a controversy with the state of Florida about our reporting of the sales tax we were collecting. With no way of knowing how much total tax we were collecting on individual customer transactions, we adopted a formula given to us by the Sales Tax Department. This formula instructed us how much to pay them every month, and we did this faithfully. Three years later they concluded that their formula had been faulty and told us that we owed them $8,304, including interest and penalties. We did not have the money, but after negotiating with them, they accepted 168 post-dated checks in settlement of their claim. The problem this presented was covering the seven checks they planned to deposit every month for the next twenty-four months. This added to our already burdened financial situation.

About this same time a fellow named Charlie Krebs from Cincinnati, walked into our office and asked if our Burger King store number five was for sale. We were still in desperate need of cash, and he made us a cash offer of $20,000 for the business. After discussing the matter at length, Dave and I accepted his offer and signed an agreement making him a franchisee. Until then, Dave and I always thought in terms of operating all the restaurants as company units. Charlie agreed to pay us a royalty of 2.9 percent a month and an advertising charge of 2 percent of sales. Our contract required him to operate the restaurant according to the standards outlined in our Manual of Operating Data, a copy of which was attached to his franchise agreement.

We were suddenly in the franchising business, but this time as franchisors. The sale of store five to Krebs was followed by a growing interest in the Burger King business, which we attributed largely to the increase in sales brought about by the introduction of the Whopper. Charlie did well with his store from the day he bought it, and he talked about his success to other people, a few of whom became interested in buying some of our remaining

stores. With all the problems we were facing, selling our company-owned stores seemed to be the best way to resolve our financial dilemma. We felt this would enable us to meet our principal objective to increase the number of units in the South Florida area. We wanted to do this just as fast as we possibly could, so we could begin advertising for our business. Additional restaurants would give us more buying power. The royalty income we expected to receive would help us defray our administrative overhead, and the franchise fees we intended to charge would be a major source of income to the company.

Following the sale of store number five, we made the strategic decision to put our full emphasis and focus on franchising. The sale of four of our remaining units followed in quick succession and this was accomplished with little effort. After the sale of these units and receipt of payment for them, we built additional Burger Kings with the intention of franchising these restaurants and growing the business as fast as we possibly could. The watershed year was 1957, when we switched from being a purely restaurant-operating company to an organization fully committed to the concept of restaurant franchising. It was the right decision at the right time, and I must say that it felt good to be doing a few smart things for a change.

Cramer and Burns sold their franchises in Ft. Lauderdale, Hollywood, and West Palm Beach. These operators were still bearing a heavy load of operating and profit problems. They wanted to sell and recover part of the investment they made, so they came to us seeking assistance. We agreed to take over their territory, remodel, and upgrade their stores to find other franchisees to buy them out. Cramer and Burns were pleased to issue a new territorial license authorizing us to build and operate additional restaurants in Palm Beach, Broward, and Monroe counties on the east coast and several other counties on the west coast. At the time we were actively engaged in

building very successful businesses in Dade County. This new agreement gave us the exclusive rights to develop Burger King restaurants in the entire South Florida area.

This was a distinct advantage to Cramer and Burns because we were making them look good. Our growth and forward momentum was impressive, and our Jacksonville colleagues paid close attention to everything we were doing. It was now clear to everyone concerned that all the crisp, new, and innovative ideas were coming from Miami. It was also clear that Cramer and Burns were falling far behind in living up to their responsibility to provide the right kind of leadership for the system.

Our Jacksonville colleagues paid particular attention to the fact that Harvey Fruehauf had put capital into our company, and they spoke to us about that on many occasions. They were also impressed with how much our restaurant sales had increased since we introduced the Whopper and with our steadily increasing rate of expansion. They decided to follow our lead and decided to enter into a partnership agreement with Ben Stein, a highly respected local businessman in the Jacksonville area. Mr. Stein agreed to make a 50 percent equity investment in their company, Burger King of Florida, Inc., and loaned the company a substantial sum of money in order to help with the expansion of the business.

Following this infusion of capital, Cramer and Burns built six or seven additional Burger King restaurants in the Jacksonville area. Unfortunately, they selected a number of poor locations that resulted in low sales, further complicated by the fact that these new restaurants were very poorly managed. They had failed to build an organization of well-trained employees, managers, and supervisors. Under their leadership, these new stores never delivered good food or good service to the public. They had no

idea about how to provide that. Before long, the company found itself in a precarious financial position.

Cramer, Burns, and Burger King of Florida found themselves in the uncomfortable position of being unable to make payments on Mr. Stein's loans, forcing Mr. Stein to take over the company in an attempt to salvage his investment. At this point, Cramer and Burns were forced to exit the business. This change in leadership required Dave and I to deal directly with Mr. Stein and the rather flimsy organization that was left in place.

We discovered that it was a pleasure doing business with Ben Stein. He was an astute businessman and I always found him to be fair-minded and straightforward with us. Ben's problem was that he had taken over a restaurant business that he knew very little about. Our operations in South Florida were obviously the largest, most promising, and progressive of the Burger King restaurants then in existence.

There were only a handful of franchisees in other parts of Florida, and Burger King had yet to expand outside the state. Mr. Stein had a serious problem on his hands. His Burger King business was pretty much dead in the water. Establishing the appropriate operating standards for the restaurants in the Burger King system should have been the responsibility of the parent Jacksonville company, but their standards and practices had never been written. Burger King franchisees were left to do pretty much as they pleased. The result was that the whole system was in a terrible state of disorganization and confusion.

Dave and I were aware that franchisees other than those we had established had been left to their own devices. They simply did not know how to operate restaurants efficiently. Most of them were bordering on failure. We met with Ben Stein occasionally to talk about the future of Burger King, and these

meetings invariably led to discussions about our taking over the national franchise development idea. With our hands full back home in South Florida, we had very little time to sit down with Mr. Stein and seriously pursue any concrete proposals.

On a bit of a sour note, the Jacksonville-based Burger King of Florida, Inc. appropriated our terms "Whopper" and "Home of the Whopper" by registering these trade names in Washington. We were not aware that they had done this. I think that had we known, we probably would have objected, although I doubt that we would have contested the matter as we had no current intention of moving out of our territory in South Florida. Our interest was focused on improving the entire Burger King system, which we felt would ultimately serve to help us, at least for the time being.

We felt that if the Whopper and all of our other good ideas about operations, building design, and equipment procurement were of help to us, they would benefit the system as a whole. The problem was that franchisees outside our sphere of influence did not know how to execute our ideas.

By 1959, we were growing rapidly, and our new, modern, and successful restaurants began to appear everywhere in South Florida. Our growing presence became increasingly noticeable both to local residents and the many visitors traveling in the Miami area. This brought inquiries about the availability of franchises in other parts of the country. We were pleased to talk with these people and show them our restaurant operation in South Florida, but when asked about franchising opportunities, we could only refer them to Mr. Stein.

Many of these prospects went to Jacksonville to tour their facilities and discuss their interest in franchising, but it was apparent to them that the Jacksonville stores were poorly operated and not as sharp and attractive as

the stores they had just seen in South Florida. Mr. Stein's problem was that neither he nor members of his organization could talk intelligently to these prospects about incorporating them into the Burger King business.

The poor image of the Jacksonville restaurants constantly frustrated and discouraged the people we referred to Mr. Stein's organization. They never sold a single franchise to the people we had sent to them.

Ben grew increasingly frustrated with his inability to convert the interest we were generating into the sale of franchises. Occasionally, after meeting a number of interested prospects, he called me to suggest that Dave and I take charge of the franchising end of the business. He understood that we were the only ones with the restaurant experience and expertise to do this. He saw and envied how rapidly and successfully we were growing our business in South Florida.

During the period between 1958 and 1960, Ben and I talked about our taking over the national development of Burger King, but we could never agree on a plan of mutual interest. It wasn't an urgent matter of concern to us at the time because we had so much to accomplish where we were. We had a tiger by the tail in South Florida, and we had plenty of territory left to expand in. Our existing franchisees were doing well, and we had a heavy demand for additional franchises. What was most significant at the time was the fact that our company had finally turned the profit corner. We were not particularly anxious to take on any new risks.

Something of considerable significance took place in late 1959, although at the time we had no idea what the future impact of it would be for our growing business. The event was the inauguration of the first commercial jet passenger service in the United States. The Boeing 707 jets were owned and serviced by Pan American World Airways. At the time Pan American was an

international carrier, without authority to fly domestic routes in the United States. Seeking the maximum utilization of their new Boeing 707s, they entered into an exchange agreement with Miami-based National Airlines to fly the Pan Am jets from Idlewild Airport in New York (now renamed Kennedy), to Miami, with a return flight to New York.

We didn't think much about it at the time, but this early domestic jet airline service was destined to have a significant impact on the development of Burger King all across the country. This historic event opened an era of convenient, nonstop jet service between Miami and major cities everywhere. Within a few years, it was possible for Miami-based businessmen to fly quickly, comfortably, and conveniently to cities all over the country. This also opened the possibility of expanding our Burger King business into other parts of the country. It was virtually impossible to base a national organization in Miami because piston-driven aircraft were slow and inconvenient to fly to other cities. Miami in 1959 was still considered a destination resort catering largely to tourist traffic. The jet age allowed the Miami business community to envision the development of business opportunities of considerable significance. We were destined to become part of that new vision.

As the Miami airport grew and jet service expanded, Dave and I took much more interest in Ben Stein's suggestion that we take over the development of Burger King on a national basis. One of the major logistical blocks to our expansion was rapidly being removed. Soon we would be able to travel quickly and easily to major markets in the United States and, later on, to many cities around the world.

I planned to negotiate and hammer out a contractual arrangement with Ben Stein, but I felt that there would be time to do that. For the moment,

with the 1950s ending, we began to contemplate what the 1960s held in store for us. Our major priority was to build a large chain of Burger King restaurants around our home base in South Florida. Both Dave and I knew that we needed a solid base of profitable operations at home before we could consider the prospects of jumping into unfamiliar markets outside the state of Florida. If we ultimately decided to take this kind of risk, we were going to give the matter very careful consideration before plunging ahead.

On the verge of our next leap forward, I considered how we had managed to implement such a massive change in our organization. It seemed to me the answer lay in the building of a strong foundation. We did not simply move from one business idea to the next, as things did not pan out as planned. We looked deeply into our processes, evaluated our weaknesses, and not only bolstered our strengths but sought to improve them.

Chapter 10

WE'RE ON THE AIR

Early TV partnerships with *The Jim Dooley Show* and Mr. Moke the chimpanzee

During the first few months of 1958, we began to sell franchises in South Florida, and this enabled us to start some small-scale advertising. Television was out of the question; it was still too expensive, so we decided to start an advertising program using radio. Dave and I asked our franchisees to take an interest in the process, and we all met with an advertising agency which had come up with a jingle that soon became well-known in the Miami area. The jingle boasted,

There's a Burger King close to you,
Sixty second service, too.
Best burger-buy for miles around.
Broiled not fried,
How does that sound?
Burger King, Burger King, Burger King!

This jingle was sung to a catchy tune and it became popular with the kids. This early strategy began the positioning of Burger King as a good place to go for hamburgers and French fries.

By late 1958, we had reached a size sufficient to launch our first television advertising campaign. Our strategy was to keep taking the Burger King story directly to kids. We had long witnessed the remarkable success of the Miami-based Royal Castle system that was then operating several hundred restaurants in the Southeast, with many of them located in South Florida. Started by William D. Singer in Miami in 1938, Royal Castle was headquartered in Miami and had stores located as far away as Louisiana. They grew rapidly and became the largest restaurant chain in the southeastern part of the United States. This made them formidable competitors in the Miami area.

Royal Castle was one of the early clones of the White Castle system that started in Wichita, Kansas, in 1921. White Tower, Krystal Castle, and Toddle House were other examples of clones of this notable concept. These operations were quite successful around the country and the concept grew impressively during the thirties, forties, and into the fifties. Their featured item was a small eighteen-to-the-pound hamburger, steam grilled and served on a small soft bun with cooked onions. At Royal Castle "birch beer" was served in a frosted mug. These small counter-service restaurants seated ten customers and were open twenty-four hours a day, located on key intersections throughout all of Dade and Broward Counties.

Their menu also consisted of freshly squeezed orange juice and all kinds of short orders, making them popular for breakfast and late-night snacks. They were busy throughout the day and night. The company was extremely successful. If they had any problem at all, it was all wrapped up in a changing American scene where consumers were eating out more often but demanding a much different style of restaurant service. The question for the Royal Castle organization would be, could they provide it?

When Burger King opened for business in 1954, Royal Castle was the dominant restaurant presence in our market. They had good, effective marketing people and much of their advertising was aimed directly at small children. During the 1950s, Royal Castle was the key sponsor of the most popular children's television show in Miami, known as *Skipper Chuck's Popeye Playhouse*, hosted by Skipper Chuck Zink.

The program aired at 5:00 p.m. weekdays on Channel 4, which was a CBS affiliate and Miami's first television station. Children made up a live audience so popular that parents had to make reservations over a year in advance to enable their children to attend. Royal Castle virtually owned the

kids' market, and as much as we wanted to get a piece of it, we were pretty well blocked. We knew that it wouldn't be easy to reach the children on television, and besides, we had less than a thousand dollars a month to spend! This wasn't nearly enough to get on television, let alone sponsor a show like *Popeye Playhouse*.

In 1958, we agreed to sponsor a competing children's show called *The Jim Dooley Show*. Mr. Dooley also had a children's audience, and his show featured a chimpanzee named Mr. Moke whose antics always delighted the viewers. We met with Mr. Dooley, liked him, and agreed to become a sponsor. The only condition I laid down was that we would be permitted to deliver a bag full of freshly made Whoppers during every live broadcast. That was all right with Jim, so at a certain hour every weekday our delivery man would carry a paper bag full of Whoppers into the studio.

A fresh Whopper has a wonderful aroma. It smells as good as it tastes! Mr. Moke obviously agreed because as soon as the studio door opened and the bag of Whoppers arrived, Mr. Moke smelled them and would go berserk in anticipation of his meal. He would grab the bag, tear it open, and devour the big hamburgers as fast as he could. The children were always delighted at the spectacle, and so was Jim. I am sure the viewing audience enjoyed it just as much as the studio audience did.

I think this daily event with the Whoppers was the high point of the show. It certainly was for all of us at headquarters. We received at least three minutes of advertising for every minute we paid for. Thanks to Jim Dooley and Channel 10, the name Burger King began to gain a bit of local recognition and started to mean something in South Florida. I had no way of knowing, but this might have put some pressure on Royal Castle.

Late in 1959, I received a call from Mr. Singer with an invitation to join him for lunch at the new Royal Castle offices adjoining their newly built bakery and commissary. Their impressive building was located very close to our newest Burger King store ten in Hialeah. I was honored to receive his invitation and gladly accepted. Mr. Singer had earned a well-deserved reputation as being one of Miami's leading and most respected citizens. He was an astute businessman who had distinguished himself in many ways. During lunch he told me the story of how he had built the Royal Castle system and how it had become such a remarkably successful chain of restaurants.

We exchanged views on the changes that were taking place in the food-service industry and had a very open and cordial discussion on a number of related issues. I told him what Dave and I were trying to accomplish with Burger King and let him know about our aspirations for future growth. It was a very candid, open, and friendly discussion. Later in our conversation, he asked me if Dave and I would consider selling our company. I didn't need to give the matter very much thought. I told him that we were not interested as politely as I could and explained that we had plans to grow rapidly, preferably as an independent company.

Apparently Mr. Singer believed that our Burger King concept was sound with a great deal of future potential. I thought at the time that Mr. Singer might have felt that Royal Castle had already reached the peak of its popularity and public acceptance. This was pure speculation on my part.

A few years after our luncheon visit, Royal Castle had their initial public offering of common stock, at which time Mr. Singer sold his entire financial investment in the company. Following the public offering, the company floundered a bit and began to go steadily downhill. By the early 1970s it had

virtually ceased to exist. Such a story is a strong reminder that times change, markets change, and businesses must change in order to keep up with the times. It is not a happy thought that Royal Castle no longer exists, but I always regarded the demise of this once proud, robust, and vital organization as a stern warning to businesspeople everywhere to stay alert and responsive to the demands of consumers or suffer the indignity and embarrassment of going out of business.

Royal Castle's departure from the scene serves as a stark reminder that a similar fate awaits any company failing to respond to change. This is the constant challenge. In 1954, Burger King began its existence on the cutting edge of change. Forty years later, the marketplace reminds all of us that there are plenty of challengers out there who are ready and willing to take on even the biggest and strongest of the lot.

After my visit with Mr. Singer, Royal Castle decided to drop its long-standing sponsorship of *Skipper Chuck's Popeye Playhouse*. Our advertising agency, Hume, Smith and Mickleberry, called me as soon as word of this shocking news went out. This was a situation that represented a big opportunity for Burger King. Up until this point, Royal Castle had enjoyed a virtual lock on the children's market. They had built a strong allegiance among children and families, and Dave and I agreed that sponsoring this program was a once-in-a-lifetime opportunity to divert that loyalty to Burger King.

Our problem centered on the high cost of sponsoring this program. It would cost us much more than any advertising we had ever considered before. Nevertheless, the opportunity was simply too good to pass up. We told the agency to buy it while they were still on the telephone telling us what had happened. We would buy the show and figure out later how we

were going to pay for it. That decision turned out to be a pivotal one during our early years in business. Being children's favorite restaurant was an enviable position to be in. McDonald's found this out many years later when they directed their own advertising toward the kids' market with their famous clown, Ronald McDonald. This brilliant strategy helped launch their company to impressive new heights of customer acceptance. Kids' approval proved to be an important factor in developing the right kind of marketing strategies in the growing food-service marketplace. We were to find out about that when we entered the 1960s.

I always had great respect for Chuck Zink and his integrity. Before he would permit Channel 4 to accept Burger King as a new sponsor of his show, he insisted on meeting with Dave and me. He visited our restaurants and talked to a few of our managers in order to satisfy himself that the representation he planned to make on our behalf would be fair to his audience. I liked that kind of an ethical approach to advertising and I convinced Chuck that we would regard ourselves as holders of that trust. I assured him that we would live up to our responsibility.

We sponsored the *Skipper Chuck* show until it went off the air fifteen or more years later. When the show was terminated, I wrote a letter to Mitchell Wolfson, the founder-chairman of Wometco Enterprises and owner of WTVJ, Channel 4, just to let him know how grateful we were for our enduring relationship with Chuck and his program over our many years of sponsorship. Mr. Wolfson shared my letter with Chuck, who told me many years later that this letter meant a great deal to him.

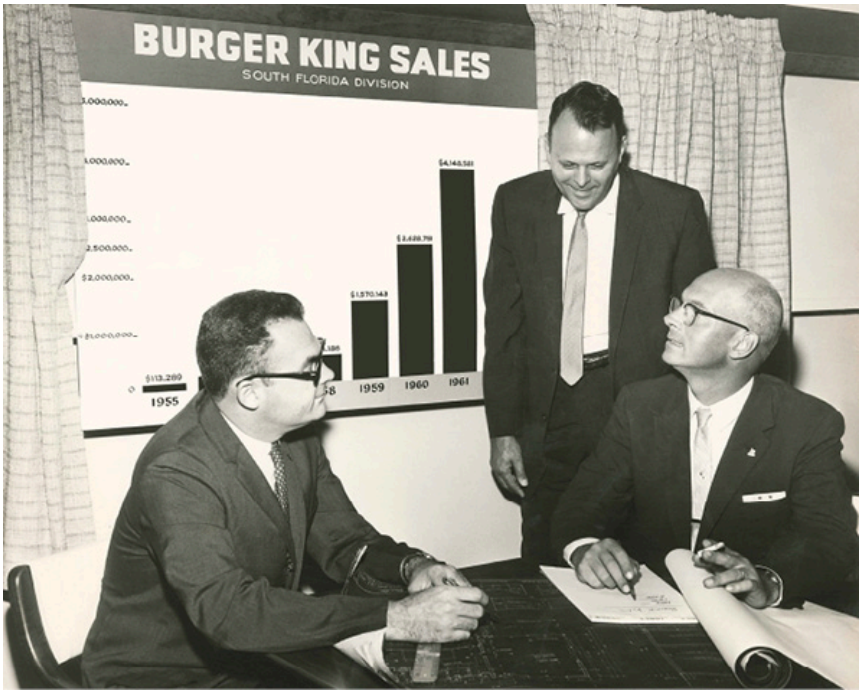
Chuck Zink will always be thought of as a highly respected television personality, for integrity can take a man a long way in life. It certainly did for Chuck Zink. This important marketing experience, and our experiment with

children's television advertising, served us well during the early years of our national expansion. It also taught us the value of supporting quality programming when we were directing the Burger King message to young kids.

Dave and I had ensured our business stayed market current, and as a result had set our business up to successfully climb another rung on the ladder of upward mobility. We knew our strongest audience, and, when the opportunity arose, we were able to approach it with the ethics that would demonstrate only the strongest respect for our brand with exactly the right partners possessing the same vision.

Chapter 11

THE RACE BEGINS



Jim and Dave reviewing sales in 1961 with CFO Glenn Jones

Our television advertising had a significant impact on public awareness in South Florida. With a steady growth in sales and profitability, we began to receive a sizable number of requests for franchises. These inquiries encouraged us to think more about the possibility of introducing Burger King into other parts of the country. Dave and I saw a great opportunity in all this, and we were confident of our ability to exploit it. However, we remained painfully aware that this was Ben Stein's challenge and opportunity, not ours. As had always been our practice in the past, we continued to refer prospective franchisees to Jacksonville, even though nothing ever came of their visits there.

Ben called me in 1959 in an obvious state of frustration and said, "Jim, you know that we can't establish these people in the Burger King business. You are sending lots of people who are interested in the franchise program, but we don't know how to go about putting these people in business. Besides we don't have an organization capable of handling it even if we did have the necessary background and experience. Why don't you and Dave take it over and work with me on some basis that we can both live with."

I asked him what kind of an arrangement he had in mind. His thoughts were that we could sell franchises to interested prospects, establish them in business, charge them a royalty, and just share the royalty with him. When I asked him to be specific regarding the sharing of royalty payments, he suggested that they be split in half, 50 percent for each of us. He would give us the entire country to develop in any manner we saw fit. I told him that we couldn't enter into an agreement like that because our 50 percent of the royalties couldn't possibly cover our costs of servicing the system. I asked what he intended to contribute for his 50 percent of the royalties and his answer was simply, "Nothing." This was a ridiculous proposal and I told him so, adding that we did not have any interest in entering into such a lopsided

arrangement. I tried to explain to him that without the necessary income to adequately service our franchisees the system would be doomed to failure right from the beginning. I don't think he agreed with that or even bothered to understand it, but after making the point we simply dropped the idea.

Dave and I kept sending prospects to Jacksonville, and all of them turned away discouraged and disinterested after taking a good look at the poorly managed Jacksonville operations. They realized that the Stein organization was incapable of putting them successfully in business, and that once established, they could not expect to be serviced. As Ben's frustration level grew, he continued to call me in an attempt to work out a deal for us to take over the national development of Burger King. I persisted in refusing to consider such an unbalanced arrangement.

As the months passed with no progress in sight, he finally called in early 1961. "Jim, I am coming to Miami tomorrow. Would you have lunch with me at the Fontainebleau Hotel? I would like to resolve this matter of your developing Burger King nationally. You and Dave are the only ones who have the organizational skills and know-how to expand this business. I have some new thoughts on the matter, so we should have a lot to talk about." The meeting sounded like a good idea because we were as anxious to take over the situation as he was to have us do so. All we needed was to come up with a fair arrangement.

We met the next day and even before we were seated, Ben got right to the point. "All right Jim, we've been unable to reach an understanding about this for years. What do you suggest that we do to get the national development of Burger King off the ground?" I'd given a lot of thought to that and I had a quick response.

"Ben, turn over all your rights, title, and interest in the use of the names Burger King, Whopper and Home of the Whopper, together with your total interest in the trademarks and service marks. With that in hand, Dave and I will commit to make our best effort to develop Burger King restaurants all over the country and worldwide. I won't guarantee you a specific performance of any kind because I don't know how successful we will be, but with regard to the royalties, I'll send you 15 percent of anything we collect every month. I can't afford to do any more than that." With that he just leaned back in his chair and said, "You've got yourself a deal. You draw up the agreement and I'll sign it so that you boys can get on with it."

I do not know how I came up with the 15 percent figure. I knew that Ben could not contribute anything to the arrangement, and I was not about to agree to pay him a big sum to do nothing at all. This development was exciting. I thanked Ben for lunch and told him how pleased I was to arrive at such an understanding. The contract would be just a formality. I was sure of that. We had a deal and, so far as I was concerned, we were now the parent company of Burger King. Just knowing that we were finally in the position of directing the national and international growth and expansion of a business we had worked so hard to develop was as stimulating as anything I had ever done up to this point. Confident about what lay ahead, I headed back to the office to tell Dave the good news.

Both of us felt that someday, and on some basis, Ben Stein would have to turn to us to lead Burger King out of Florida and establish the brand as a national restaurant chain. He really had no other choice. With our franchising program running so successfully in South Florida, we had an organization in place that could easily start the same activity in other areas. Ben could see that, and it was a smart decision on his part to let us take charge of the situation.

I was excited when breaking the news to Dave, who was back at the office and anxiously waiting to hear from me. “Well, Dave, we’ve got it. Ben has agreed to accept our proposal!” I could see how pleased he was at the realization that finally we had the big opportunity we had waited and hoped for. “The first thing I’ve got to do is call Tom Wakefield,” our attorney at the time, “and get him going on that agreement. We need to get this thing done as fast as we can.” Dave agreed, and I could see he was already deep in thought on how we should go about organizing the big push.

I called Tom right away, and after explaining the deal we had just agreed to, I asked him to prepare a contract and get it back to me as soon as possible.

After I reviewed the contract, I forwarded the agreement to Ben, who signed it and returned an executed copy for our files. The agreement gave us the rights and authority to develop Burger King throughout the world except for parts of Northern and Central Florida. At the time there were a few franchised units operating in Tampa and Orlando, plus a handful in other parts of the state, including Stein’s own stores in the Duval County (Jacksonville) market. A few years later we took over all of Florida except for this Duval County territory. Ben’s youngest son, David, became involved in the business and proved to be a very effective manager. He drew heavily on our advice concerning operations and marketing, and the Jacksonville business began to improve significantly. Within a few years, David had these restaurants operating profitably, and in terms of cleanliness and quality of operations, they were a credit to the system. We were proud to welcome young David as an important addition to the team.

Now that we had total control over the future destiny of Burger King, we faced the challenge of building a strong national organization with confidence and enthusiasm. After struggling for seven years to create a

successful formula, we felt secure in the knowledge that the system we had developed was a good one that could easily succeed in the domestic market.

Dave and I had made plenty of mistakes and done a lot of impulsive and unwise things in the past, usually because we did not stop long enough to carefully think things through. From this time forward, we would be sure to exercise good judgment in planning our forward progress. Now with size, experience, a workable system, and a stronger balance sheet, we were positioned to grow. With a successful track record already established, and with a significant demand for our franchises, we felt we had the world on a string.

When we signed our contract with Ben Stein early in 1961, we had very little available capital to invest in expanding the business. We lacked the means to purchase the trademarks. Our only option was to enter into a contractual "best-efforts" agreement that would give us the use of these rights on an exclusive basis. With a national target in sight, we were anxious to begin. It all looked promising. We had a successful program firmly established in South Florida, we had momentum, the Whopper, franchisee prospects standing in line, a refined operational formula, and great confidence in our own ability. We had it all. We were ready to launch.

I knew that someday we would have to buy out Mr. Stein's contract. A few months later I asked him what he would sell it for. He told me $100,000. This was a lot of money. Our competition was up against the same problem.

Enamored with the prospects of expanding the McDonald's concept in 1954, Ray Kroc entered into an agreement with the McDonald brothers to be the exclusive distributor of franchises. This gave him the right to use the McDonald's name and their system of food service. He was given the right to expand the business but was obligated to adhere to the McDonald's

operational standards and obtain the McDonald brother's approval before making any changes to the operational system. The contract specified that franchisees would pay a royalty of 1.9 percent of sales, and it placed a $950 limit on the amount that could be charged for a franchise. The 0.5 percent of system-wide sales were payable to the McDonald brothers monthly. The remaining royalty of 1.4 percent of sales could be used to service the system and hopefully make a profit. This was a bad deal both financially and operationally.

The McDonald brothers were to receive almost 30 percent of the royalties that Mr. Kroc was entitled to charge, but what was left could hardly be expected to cover the expenses of adequately and properly servicing the business. The $950 limitation on the charge for individual franchises would be an outright gift to the franchisees, but it would be an absolute disaster for Mr. Kroc, who would find himself in the position of expanding his business only to experience a loss on each sale of a franchise.

Numerous conflicts between the parties made a buyout of the McDonald brothers mandatory by 1961. The brothers demanded $2.7 million to step out of the picture. This was a huge sum at the time. Kroc's new McDonald's Corporation earned only $77,330 in 1960, and the net worth of the company was slightly in excess of $250,000.

Harry Sonneborn was president of McDonald's in 1961 and owned 20 percent of the company. Sonneborn had proven to be very capable of developing real estate. When he joined Kroc in 1955, he was thirty-nine. He had previously served as a financial vice president of Tastee-Freez, a sizable chain of soft ice cream shops. He knew the franchising business and he conceived a real estate financing idea that would play a significant role in contributing to the extraordinary growth and success of the company.

Sonneborn formed a subsidiary company called Franchise Realty Corporation in 1956. Its only purpose was to either buy land and construct restaurant buildings, or to lease land and restaurant buildings built by investors. Sonneborn's plan required franchisees to put up a security deposit on each lease, usually in the amount of a year's rent in advance. If McDonald's bought a vacant property, the security deposit was used to make a down payment on the purchase of the land. The owner was offered top dollar for his property, but in order to get this high price, he had to agree that the remaining balance due to him could be paid over a period of ten years. In addition, the owner was required to subordinate his purchase money mortgage so that a superior mortgage could be placed on the property. This enabled McDonald's to borrow the money needed to construct their building. The franchisee's future rental payments were calculated to cover the monthly payments of principal and interest.

In the event the land and building were built-to-suit by the property owner or developer, it was leased directly to McDonald's and then subleased to a franchisee. The terms of the franchisee's sublease assured McDonald's a handsome markup on each leasing transaction. Rental charges to franchisees were often based on markups running as high as 40 percent above cost. On top of that, the franchisee was required to pay the higher of his marked-up rent or a set percentage of his sales (usually 8.5 percent). The franchisee-lessee paid all taxes, insurance, and maintenance on the property so that the lease was always "net-net" to McDonald's.

These creative financing schemes were the basis upon which McDonald's became the largest retail property owner in the world. Their highest percentage of corporate earnings comes from real estate operations. It was clear from the beginning that this ingenious real estate development formula was earmarked for success. Sonneborn, addressing the New York Society of

Security Analysts shortly after going public in 1965, made the statement that his company was "first and foremost in the real estate business." One investment banker later referred to his ingenious financing concept as "McDonald's exquisite use of debt." What was not mentioned was that the key to this success was based on the success of the individual restaurants. Were that not the case, the scheme would have fallen flat as many less capable imitators would soon find out. This was a high-leveraged game with a thin margin for mistakes.

Sonneborn's Franchise Realty Corporation was a wholly owned subsidiary of McDonald's, and by the early 1960s, it was bearing a crushing burden of debt as a result of engaging in all of the real estate financing. If it ever developed that a certain number of franchisees were unable to pay their rent, the scheme might easily have backfired. By 1961, the consolidated financial condition of McDonald's painted a grim picture of a company precariously overleveraged with leasing debt. It would be next to impossible for them to obtain additional financing on conventional terms.

Sonneborn's challenge in 1961 was to obtain the financing needed to buy out the McDonald brothers. The licensing agreement they had signed with the McDonald brothers created a burdensome, if not impossible, situation for the company to contend with. With the help of John Bristol, a money manager and financial consultant to a number of clients, including major colleges and universities, a $2.7 million loan was worked out. Among Bristol's clients at that time was Princeton University, which took $1 million of the financing. Some fifteen years later I worked with Bristol in my capacity as Chairman of the University of Miami's Investments Committee. We retained Mr. Bristol to manage a portion of our endowment funds. I found him to be a shrewd and capable money manager and investor. He had certainly proved the point in his dealings with Kroc and Sonneborn.

The Sonneborn-Bristol loan package was a high-risk proposition, but it came at a time when it was imperative for McDonald's to get the $2.7 million loan, even on the most onerous of terms. It was also a risk for investors, and Bristol insisted that the reward to the lenders had to match that risk. The loan agreement called for a 6 percent interest charge, and the schedule of repayment of principal and interest was set at 0.5 percent of system-wide sales. This schedule was equal to the payments called for in the contract Kroc had signed with the McDonald brothers. The royalties that were collected in the future would determine how fast the loan could be paid off. This was simple enough, but there was an added provision that specified that when the loan was finally paid off, a bonus to the lenders would come into play. The bonus would be equal to 0.5 percent of system-wide sales for the exact period of time it took to pay off the original loan. Thus, if it took eight years to pay off the original loan, McDonald's had to agree to pay a bonus of 0.5 percent of the future system-wide sales to the lenders during the ensuing eight-year period of time. It was an ingenious arrangement that was very rewarding to the lenders and critically needed by the borrowers.

The purchase of the McDonald's name was in many ways similar to our purchase of the Burger King name several years later. We paid $2,550,000 to Ben Stein in 1967 in order to procure the Burger King trademarks and the national franchising rights. We had been licensing these in an agreement we had signed in 1961. Stein owned the Burger King trademarks, and we had to have them in order to conclude the Pillsbury merger. It was simple; we had to pay his price, whatever it was. Kroc, no doubt, must have felt the same way in 1961 as we did in 1967. He had to own the McDonald's name outright in order to relieve himself of an onerous operating and financial

obligation. This was our situation when we came up against a remarkably similar problem.

By 1961, Kroc was having great success in expanding his business even though corporate profits were still very low and the net worth of the company was relatively insignificant. McDonald's franchisees were very successful, and their enthusiasm and prosperity stimulated considerable additional interest in the McDonald's program. The following figures show the comparative financial performance of Burger King and McDonald's from 1960 to 1967. These were important start-up years for both companies. It is evident from the numbers that Burger King was making impressive percentage gains, but McDonald's had begun to pull out in front as far as profits were concerned. We were focused on the number of successful units we were opening, and as far as I was concerned we were tracking our competitor quite well. As small as these numbers might appear, they did reflect the status of the industry at the time. These were the birthing years of the fast-food business, and we were at or near the head of the pack.

	Profit After Tax		Stores Opened During Year	
Year	McDonald's	Burger King	McDonald's	Burger King
1960	$77,330	$28,386	NA	7
1961	$16,103	$47,083	81	8
1962	$439,315	$73,058	107	7

1963	$1,048,611	$151,807	111	13
1964	$2,017,178	$225,112	116	30
1965	$3,402,136	$446,239	95	49
1966	$4,511,734	$758,008	124	64
1967	NA	$972,317	105	72

Kroc and Sonneborn were in constant need of funds to expand their business. The year before they borrowed $2.7 million to buy out the McDonald brothers, they borrowed $1.5 million on terms which today seem almost scandalous. They negotiated a $1.5 million loan with State Mutual Life and Paul Revere Life at 7 percent interest. Each of these life-insurance companies loaned half of the $1.5 million, or $750,000, and each lender received as a bonus 10 percent of McDonald's common stock. This was 20 percent of the entire equity of the company! The finder's fee cost an additional 2.5 percent of McDonald's stock. This 22.5 percent dilution of the founding stockholders' hard-earned equity must have been a hard pill to swallow. A 22.5 percent interest in McDonald's had a market value in excess of eight billion dollars in 1996.

The story only serves to amplify how investors viewed the risky nature of the failure-prone restaurant and fast-food business at the time. What Burger King and McDonald's were doing in 1960 was pioneering a new, relatively untried and untested concept in food service, viewed as a risky business by banks and lenders. We were able to attract a certain amount of financial assistance in those years, but it was understood that it would be very costly.

If we wanted the financing, we would have to pay dearly for it. Kroc and his young McDonald's Corporation proved the point when they agreed to pay such a high price to get a mere $1.5 million loan in 1960.

I tell the McDonald's story out of the great respect and admiration I have always had for Ray Kroc, including his vision, his struggles, and his uncompromisingly high standards for restaurant operations. He opened his first McDonald's restaurant in Des Plaines, Illinois, on April 15, 1955, which was thirteen months after our first Burger King restaurant opened in Miami. In May of 1959, during a trip to Chicago, I called Ray and asked if I might stop in to introduce myself. Our visit was brief but very cordial.

Having met the man so early in our business careers and witnessed the extraordinary growth of his company since we first met, I was pleased on May 18, 1975, to act as Master of Ceremonies at an impressive dinner at the Palmer House which honored Ray as the NRA Restaurateur of the Year. When he reached the podium to receive his award, he stated that we had known each other for the past sixteen years and that during that time he held me in great respect, adding, "After all, I named my big sandwich after Jim by calling it the 'Big Mac.' " That thoughtful and humorous remark brought the house down. I was proud to show visitors to my office a picture taken of the two of us on that special occasion.

Competition will always exist in every facet of business. One of the great things about the American free-enterprise system is that two people can be vigorous competitors in the marketplace and still enjoy a mutual respect and appreciation for each other's achievements in the marketplace.

A Franchisee Story

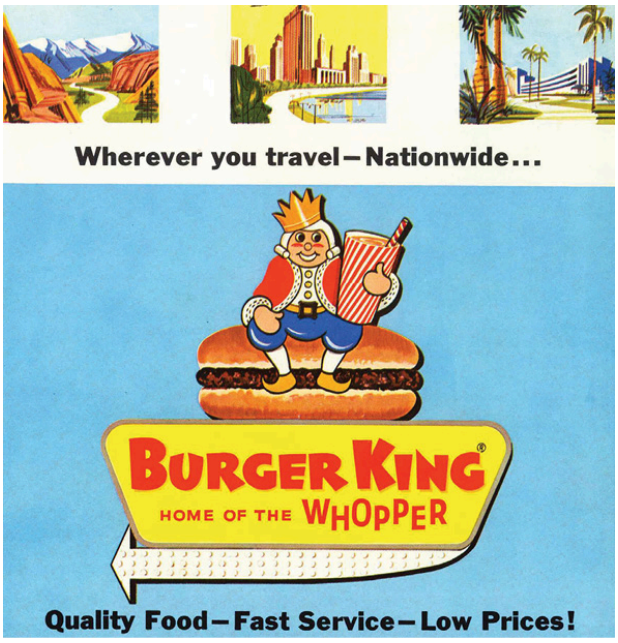
In 1958, Bob Furman, a franchisee of thirty-seven years from Illinois, became part of the system and met the legendary cofounder. “At that time, my father spotted a tiny, three-line ad in *The Chicago Tribune* advertising for a Burger King franchisee. My dad, who was planning for retirement and thought this might be the right opportunity, pasted the ad on the back of a postcard and mailed it off.” While the Furmans (father and son) were not even sure they would get a reply, they heard directly from Jim McLamore, who, explaining they didn’t have any brochures to send, suggested instead that they fly to Miami to talk. At that time, Burger King’s entire national presence was eight or nine stores, and franchising was in its infancy.

“We met him in the commissary, and while we were talking, he chopped lettuce and onions,” Furman continues. “Around eleven, he suggested lunch and excused himself as he and Dave had to go to work. We went up to the counter and there he was, working the cash register while Dave was working the fries.” Burger King was very much a family affair in those days, Edgerton remembers, with Nancy doing the books and the taxes. Even the operating manual was done in the McLamore home. “We’d stay up late at night. I’d be talking and Jim would be typing. We wrote the book on operations. Everyone was copying us after a while.” The Furmans became franchisees and opened store number twelve. And they rose to, and more than met, an admirable challenge.

Bob Furman: *FLAME Magazine,* September 1996, excerpted from pages 6–10

Chapter 12

PUTTING IT IN GEAR



A Burger King advertisement from the 1960s

During the 1950s and early 1960s, it was necessary for Burger King to stimulate demand for its franchises because the company was so relatively unknown at the time. One way was to run newspaper advertisements, and another was to grant territorial agreements, which gave certain exclusive rights to franchisees to develop Burger King restaurants within specified geographical areas. This was an attractive incentive at the time, but today we no longer have to do this. The only protected geographical areas offered to new franchisee's is a street address or a description of an individual location.

Exclusive market areas in the United States are no longer reserved for development. In the beginning very few prospective franchisees were willing to commit their resources to the business unless they had assurances of an opportunity to grow and expand. They were in a position to demand that kind of commitment because there was only a minimal demand for the franchises we were interested in selling. Burger King needed to expand the business more than the prospective franchisees needed to buy the franchises. It was a simple case of supply and demand.

Dave and I were more than willing to issue territorial agreements in those days. We felt that this was the best way to position the company as a large, growing, and profitable organization that had the capacity to compete and grow on a national basis. We felt it was important to expand the system rapidly in order to establish Burger King as a leader in our field. We picked the best franchisee prospects we could find and if they were willing to commit to us, we were willing to grant them territorial rights to develop and open a specific number of Burger King restaurants according to a set timetable we both agreed on. The franchisees agreed to forfeit their territorial rights if they failed to meet the opening schedule. This acted as an

incentive for them to meet our growth objectives. This in turn contributed to our becoming a leader in the world of restaurant franchising.

During the 1960s, when expansion of this kind was almost unheard of, we were setting growth records nearly hard to believe. Without the early motivation, involvement, and determination of our franchisees, it would have been much more difficult, if not impossible, to have built such a strong company in such a short period of time. We did it because our franchisees helped us do it. It was our ability in the early 1960s to establish ourselves as a key player in the infant restaurant-franchising business that gave us the important momentum. We gained the reputation of being among the best and most dynamic franchising organizations in the country.

Territorial franchising and rapid expansion required that Dave and I spend a good part of our time traveling around the country. Our intention to become a leading national franchisor was an extremely ambitious goal at the time, and we were limited by the fact that we still had a very small staff. We concentrated on building a capable management team now that we had set our sights on such an aggressive undertaking.

Our challenge was to put together an organization qualified to develop real estate, sell franchises, and train personnel. With such an organization in place, we were able to equip and open new restaurants very quickly. Our development plans represented a very complex undertaking requiring the attention of a talented group of key managers.

As we initiated our national development strategy, H. Glenn Jones joined us as chief financial officer, J. Thomas Brown became our general counsel, and Bill Koenig was appointed as treasurer. In quick succession “Bud” Granger took charge of franchise sales, Dave Talty headed restaurant operations, Bill Bradford took over our real estate operations, and S.M.

“Pete” Piotrowski was put in charge of construction projects, commissary operations, transportation, and manufacturing. “Bud” Wilson came in as head of personnel and training. Glenn Conger was put in charge of procurement, and Bill Sellers assumed responsibility as head of restaurant installations and later headed Davmor Industries, our equipment-manufacturing subsidiary. Jack Calhoun joined us as head of marketing operations. Bill Murphy joined us as head of our architectural department.

With the assistance of this growing team of key managers, along with our enthusiastic franchisees helping to lead the way, our rate of growth began to climb steadily. By 1965 we were opening Burger King restaurants at an average rate of one per week throughout the year. This was an extraordinary achievement at a time when the food-service industry was hardly aware that chain restaurants even existed.

Our first out-of-state store was opened in Wilmington, Delaware. Granting a franchise to four people I had known during my Colonial Inn days during the late 1940s, we learned an important lesson that we never forgot. All four of these men were passive financial investors, and as absentee owners there was nobody willing to assume the responsibility of managing the business. When a manager was finally selected with no equity stake in the business, the result was that the restaurant never did very well. From that time on, we avoided issuing franchises to investors who were not deeply committed to operating the business.

Earl Brown was the franchisee who opened our second Burger King restaurant outside the state of Florida. This one was located in Winston-Salem, North Carolina. The enthusiastic response to this opening gave us a great deal of encouragement about the prospects of succeeding in new and unfamiliar markets. Many prospective franchisees went there to investigate

the profit-making potential of the Burger King business. Earl and his financial partner, Bob Forcum, went on to develop restaurants in the tri-city area of Winston-Salem-Greensboro-High Point. Their extraordinary achievements in these markets were a significant factor in stimulating interest in our franchise program.

Additional interest came from word-of-mouth advertising from our strong, visible, and growing presence in the Miami area. We also ran small advertisements in a few newspapers. Adolf Deschler, a naturalized American citizen from Germany, was one of our earliest prospects. Adolf lived on Long Island, worked for a dairy, and delivered bottled milk door to door. After reading one of our advertisements and calling me, he flew to Miami and liked what he saw. Shortly thereafter, we opened our first Burger King restaurant in Atlanta in 1962.

Earlier in 1962, I went to San Juan, Puerto Rico with Bill Gibson and opened another successful restaurant. Thirty years later we had over one hundred restaurants on the island. Pete McGuire opened our first Burger King restaurant in Dallas in 1963. Alfred D. "Pete" Peterson opened our first restaurant in Minneapolis.

Dave Edgerton helped Jimmy and Billy Trotter open their first Burger King unit in New Orleans, the first of many Burger King restaurants opened by these two talented brothers. Murray Evans, a young man with very little money but a great deal of self-confidence, opened in Mobile and started building a profitable enterprise in portions of Alabama, Mississippi, and the Florida Panhandle. Dave spent considerable time with Harold Jeske, Pat Ryan, Bob Furman, Ed Pendrys, and others in establishing the Burger King presence in the three different territories that made up the greater Chicago market.

Haywood Fox was so impressed with Earl Brown's extraordinary success in the tri-cities that he built several stores in Charlotte. Fred Wessel, a schoolteacher from Miami, developed successful franchises in Alabama. Dave Murray did well in New Hampshire, as did Nick Janikies in Rhode Island. Bill Hufnagel and Chuck Mund successfully established Burger King in important markets in the greater New York City area. Earl Martin, Larry Stokes, and Dick Sherwood were early pioneers in South Carolina. Ben Young and Ben Schuler pioneered the Detroit market. The three Henry brothers were also important franchisees. Leroy opened in Flint, Michigan, Oscar went to Colorado Springs, and Harry to Las Vegas. Marvin Schuster pioneered our business in the Carolinas and Georgia, Harvey Levine in New Jersey, Bill Russell and Carl Ferris in Philadelphia, Tom Gaddes in Washington, DC, Tom Macon in Ashville, Joe Hawken and Willard Petersen in Charleston. The list goes on and on.

I will always remember the fun and excitement of working with so many fine men and women who helped us during the early years of developing our business. They deserve much of the credit for establishing the company as a leader and major participant in the fast-growing field of chain-restaurant operations. People from all walks of life joined under the Burger King banner to build successful businesses. They all worked hard and, with that single purpose in mind, we all got along famously. The most satisfying part of the story is that almost without exception, every one of these people was successful. The Burger King system made a profit for the participants and that was the important factor. We became a very successful company because we were able to help our franchisees do well. Many of them went on to build sizable personal fortunes. Dave and I viewed their success as our own success. They were a part of our family and we regarded them as such.

Our common goal was to find the basket with the golden eggs, and we succeeded in doing this.

Our earliest franchisees were very much like Dave and I, in the sense that they were pioneers of a completely new concept in food service. Like all business start-ups, there were plenty of risks involved, but these were magnified because the concept was so completely untried and untested. We had spent many years developing a system that worked when it was properly managed. This was the basic reason for our early success at the national level, and it helped to create an avalanche of requests for new franchises. We capitalized on America's growing acceptance of economically priced meals made available to customers who chose to eat away from home. Within a few decades, the food-service business in the United States was totally dominated by restaurant chains. I felt very fortunate to be on the cutting edge of the swift changes that were taking place in the country.

Chapter 13

SNIFFING AROUND: THE BOOZ ALLEN VISIT

Jim with one of the Distron commissary trucks

I had gained a certain degree of recognition by 1965 as a leading spokesman for the growing fast-food industry. I was not particularly surprised to receive a call from a representative of the well-known management-consulting firm of Booz Allen Hamilton. They asked if they could come by the office for a visit and discuss new developments then taking place in the food-service industry.

What I didn't know at the time was that the Booz Allen people were on assignment from the Pillsbury Company in Minneapolis. Their mission was to report back on changes that were taking place in the overall food industry. Grocery-store sales were essentially flat, competition among manufacturers of consumer food products such as Pillsbury was intense, and Pillsbury wanted answers as to what was going on with consumers and where they should focus their attention in order to grow their business.

The Burger King business was really booming, and our corporate headquarters was located in the rear of the Coral Way store number seven by 1966 on an extended property. On average, we were opening more than one new Burger King restaurant every week in cities all over the country. The additional space was needed to accommodate a growing staff and was used to accommodate our new and growing departments in advertising, accounting, personnel, franchise development, real estate, construction, architecture, equipment procurement, and the like. Also located in this space was our training facility, Whopper College. This teaching school made it possible to train our new franchisees on the procedures they would be required to follow in operating their soon-to-be-opened Burger King restaurants.

It was this busy, cramped beehive of activity that the Booz Allen people walked into. I'm sure they could see that Burger King was an organization

that was growing rapidly and very busily. On the wall of my office I had a framed picture with an important message. With our Burger King trademark on top (which was the king sitting on a hamburger bun), the message read: this is a PROFIT-MAKING organization. That's the way we intended it—and that's the way it is! The two men looked at that intently for some time and made some comments about it. I thought this message was a perfect expression of our corporate resolve and I used it often to let our franchisees, suppliers, bankers, and employees know that we had our sights set on becoming the best and most profitable company in the industry.

All of our Burger King associates knew that we were headed for the top, and we weren't ashamed to let our intentions be known to anyone who would care to listen. I think we all saw ourselves as a lean, mean, hard-charging group of managers, highly focused on our mission of becoming the best company in our field. At least among us, there was no doubt about the integrity of our corporate resolve. Dreams and aspirations were guiding and directing us toward that objective.

I spent several hours with the Booz Allen people that day. Since my Cornell days, I had been interested in the history of the restaurant industry, its evolution, and the changes that had taken place over the years. I knew how the industry had come into existence and I had my own ideas on where it was headed. Thanks to my past and current affiliation with various trade associations, I knew many of the men and women who were industry leaders at the time. They seemed to be keying in on how fast the "away-from-home eating market" was growing, and they were anxious to learn about that particular market's potential. Specifically, they were interested in getting some ideas about the impact this growth might have on the "at-home eating market." Pillsbury, after all, was in the consumer-foods business and was engaged in selling their products to the nation's grocery stores.

They knew that the food-service business was growing rapidly, and they might have presumed that this was largely responsible for the flattening of sales in grocery stores. Since the opening of the Colonial Inn fifteen years earlier, food-service sales in the United States had more than doubled to over $23 billion. By the 1990s food-service sales would grow to over $250 billion, but even the most optimistic among us could not have predicted anything like that. These were good times for us. Eating out was becoming an American lifestyle.

Statistical data was available from government and industry sources regarding changes that were taking place in both the food industry and the food-service industry. What was not readily available was information about which segments of the away-from-home market had the best long-term prospects for growth. The real focus of Booz Allen's investigation was on the companies and segments of the industry most likely to be the major participants in the growth that was certain to occur.

During the past few years, Dave and I traveled extensively around the country visiting franchisees, picking out new locations, and selling franchises. Everywhere we went we noticed new limited-menu restaurants springing up. We made it our business to learn all we could about national marketing trends and we made a particular point of studying each individual market in as much detail as we possibly could. We were well aware of the markets where local chains were strong, and we knew where the regional chains were doing well. Both of us felt that we knew a bit about their strong points, their weaknesses, and where they were vulnerable. We had firm opinions about where industry growth would occur and how new growth could be stimulated. I freely gave Booz Allen the knowledge and opinions I had in that regard.

McDonald's highly successful public offering in 1965 focused national attention on the phenomena and growth of limited-menu chain restaurants. Theirs was such an important retailing success story that it was featured on the cover of *Time* magazine. This publicity, and much that followed, created a good deal of public awareness about the potential profitability of franchised restaurants. Booz Allen wanted to know more about this kind of business. What was its potential? How profitable was it? What were the hazards and pitfalls? Which companies were successful? What situations should be avoided? Was franchising a viable method for fueling growth within the industry? What uses of advertising and mass-marketing methods would come into play? These and many other related questions dominated our conversation and remain relevant to any new business today.

Although I had no idea about their underlying purpose in calling on me, I had no doubt that they left with the feeling that limited-menu restaurants were going to enjoy substantial growth in the future.

I learned many months later that, in their report to Pillsbury, Booz Allen attributed the flat growth in institutional food sales largely to the explosive growth taking place in the away-from-home market. They concluded their report by advising Pillsbury that if they wanted to participate in the overall food business, they should consider taking a position in the restaurant business. Pillsbury's response was to charge them with a new assignment: to identify the best way to gain access to that industry. Booz Allen came back after conducting another study that analyzed the strengths and weaknesses of most of the major independent chains. Their recommendation to Pillsbury was that they should consider the acquisition of the Burger King Corporation as the best way to access the market. Soon afterwards, representatives of the Pillsbury Company made contact with us.

By taking on a leadership role and continuing to build our knowledge of the overall industry we stayed at the forefront of innovation, and people at the individual and corporate levels had taken notice.

On Distron and Davmor

In the early years of BK there weren't equipment suppliers readily available to supply the system. Nor were there food suppliers available to deliver all the products the restaurants needed on a daily basis.

I remember going to Distron and watching them make the hamburger patties in a large (fifteen foot round) stainless steel vat then pumping the meat up to a conveyor belt that would press it to the correct thickness and then punch out the two-ounce hamburger patty or the four-ounce Whopper patty. The excess would go back into the vat and be processed back up the conveyor belt until all the patties were formed. Back then BK only had fresh (never frozen) patties. Forklifts would drive the boxed patties into drive-in/walk-in cooler waiting for shipment to all the locations in Florida. It was an impressive operation and it all started because Dad and Dave demanded quality and effective delivery of their products to grow the brand successfully. Dave, the engineer, was critical to these subsidiaries' success.

Whit McLamore, *FLAME Magazine* 1996 Issue

Chapter 14

REMOVING OBSTACLES

The first Burger King commissary

We called it the Burger King Commissary and later changed its name to Distron. This was the humble beginnings of a food production and delivery service that ensured the timely arrival of food and supplies into our restaurants. When we opened our second Miami Burger King, we delivered supplies to it from stock we kept in inventory at store number one, and we continued doing this through the opening of our store number six. My personal station wagon served as our first delivery vehicle.

When we opened store number five, it became painfully obvious that we could no longer continue operating this way. We were in need of a business office and room to expand our commissary operation. We provided this space when we designed and built our Burger King store number seven in March of 1957. This building included a large warehouse and office space, which adjoined the restaurant. We bought a used 1947 International panel truck for a hundred dollars, our sole commissary delivery vehicle replacing the station wagon. This beat-up old truck had a rear end with a decided list or tilt to it due to a faulty rear end suspension, and we struggled to keep it running. It was a wreck, but it was all we could afford at the time. Six months later we bought a brand-new Chevrolet panel truck for $2,600. This upgrade in delivery equipment helped us provide more reliable service to our restaurants. We began to see the advantages and importance of centralizing our procurement and delivery operations.

Our South Florida franchising program was in full swing by 1962 as new restaurants opened on a steady basis. However, we needed to accommodate the significant increase in our commissary business. We acquired an industrial property on the newly opened Palmetto Expressway and built a large freestanding warehouse and production facility. Because it was located on a railroad spur, we could buy and receive supplies in carload lots at considerable savings. Daily deliveries by a growing fleet of trucks enabled us

to provide greater efficiency and convenience to our restaurants. As we continued to open new restaurants in South Florida, the new commissary helped call attention to Burger King's growing market presence. With an ever-increasing number of restaurants to serve, we established a distribution business that was destined to become the model for modern-day distribution services to chain restaurants.

However, the rapid growth of the Burger King system early on created some frustrating logistical problems to do with timely and reliable delivery of equipment to job sites. Independent suppliers in many different parts of the country manufactured our equipment and signs. This required us to negotiate with individual purveyors over costs and delivery schedules, taking up a lot of time and energy. It was next to impossible to coordinate the exact arrival time of the equipment, and this complicated the installation process. Our practice was to send our installation people from Miami to see that everything was installed and functioning properly. These installers simply could not complete their task on a timely basis because of delays in receiving so many different items from so many different sources. We were ordering and coordinating the delivery of walk-in coolers, sinks, shelving, signs, counters, shake machines, fryers, broilers, refrigerators, seating, drink stations, and other important items that needed to be installed before we could open for business. It seemed that nothing arrived when it was supposed to. It was a logistical nightmare.

We found ourselves in the position of opening as many as two or more restaurants in any given week by late 1962. In handling this kind of activity, we were contending with an inefficient and unreliable delivery situation constantly disrupting our store-opening schedules. To solve the problem, we ordered all the restaurant equipment to be shipped directly to the Miami commissary, where we kept it in inventory. This enabled us to ship

everything we needed to a particular job site all in one load and have the equipment arrive at the exact time our Miami-based installation people appeared at the job site. When we implemented this plan, installation time was cut from several weeks to as little as three days, at significant savings in cost and convenience. An additional advantage was our ability to buy equipment in quantity at greatly reduced prices.

Finding storage space for this equipment presented another logistical problem. The Miami commissary was built to process and supply our South Florida restaurants with food, paper, and various other items. We did not have room in the original fifteen thousand-square-foot facility to do much more than that. When the need arose to provide space for storing restaurant equipment, we built a fifteen thousand-square-foot addition to the building, doubling the size of the plant.

To expedite matters even further, we contracted with a local sheet-metal firm to build some of our stainless steel equipment. We contracted with a local neon-sign company to build our signs. This even included the large pole sign that we installed in front of all the new restaurants. The counters, tables, and dining room furniture was manufactured in South Florida and shipped directly to the job sites, since we could control deliveries of this kind. Specialty manufacturers located in many different parts of the country shipped the rest of the equipment directly to Miami. This included fryers, milkshake machines, drink stations, icemakers, and so forth.

The cost of shipping this equipment was very reasonable. Truckers delivering cargo to Miami had considerable difficulty obtaining backhauls, and this usually required them to deadhead north with an empty rig. It took the capacity of two forty-foot tractor trailers to hold all of the equipment we shipped to each location. This was the kind of business the truckers were

anxious to get. It was actively solicited, and their labor was made available to us at very low cost.

We took pride in pointing to the fact that two truckloads of equipment would arrive on a job site at a specified time, and would contain everything from the huge neon pole sign and walk-in cooler to the pencils and paper clips for the manager's desk drawer. It was the first delivery system of its kind in the infant fast-food industry and it set a standard for the future.

The centralizing of equipment procurement and delivery became so efficient that within months we decided to build our own hamburger broilers. This was a means of protecting our technology and lowering our costs. These broilers were patterned after the initial design that David Edgerton conceived and built in 1955. We had enough extra space in the newly constructed commissary addition to enable us to build a better-quality broiler at substantial savings. This put us in the equipment-manufacturing business, albeit on a modest scale.

The broiler was made from parts cut from sheets of stainless steel. We bought heavy-duty equipment designed to cut and form these panels. In starting the manufacturing process, we hired experienced sheet-metal workers and machinists. Once established as a manufacturer, we decided to effect additional cost savings by producing our own stainless steel refrigerators, counters, sinks, shelving, walk-in coolers, fry stations, and other items. This created another space problem requiring us to build an additional fifteen thousand square feet to the existing building. When finished, this gave us a total of forty-five thousand square feet of industrial warehousing and production space. Even this would not be enough. We made a decision to build a full-scale equipment-manufacturing plant at a site located only a short distance from our expanded commissary facility.

We named our equipment-manufacturing division Davmor Industries, which was a portmanteau using the names of DAVe and McLaMORe. We expected to be building and supplying much of the equipment that would be needed in the hundreds of new Burger King restaurants we planned to open every year into the future. We were convinced that we could build better-quality equipment than we were able to buy, and that we could lower our costs in doing so.

We finished a completely new fifty thousand-square-foot plant and offices for Davmor Industries on a twenty-acre site in 1966. Within a few years, this business grew to the point of employing 325 machinists, sheet-metal workers, and furniture makers. Annual sales reached a high of $27,500,000, and pre-tax profits exceeded four million dollars a year. Within a short time, Davmor Industries positioned itself as one of the largest fabricators of restaurant equipment in the United States.

This was a unique start-up company, with profitable operations from the day it opened for business. We demonstrated an ability to supply franchisees with equipment at a lower cost and of higher quality than they could obtain from the outside. This was important, but the real contribution to the Burger King system was the reliable and timely delivery of our restaurant equipment. The company was so successful that we had to build two separate additions to the original plant. One of the additions came with six tractor-trailer loading bays. The plant needed to run three shifts around the clock at maximum capacity in order to keep up with the huge demand for the equipment we produced.

Dave and I were so impressed with Davmor's early success and the continuing success of Distron, our rapidly expanding commissary business, that we formed a fifty-fifty joint venture with the Miami-based general

contracting firm of Shafer and Miller. During the 1950s and into the early 1960s, this company built many of our Burger King buildings, and did a very good job. Dave and I felt that it would be to our benefit to have this firm take over the job of constructing our restaurant buildings on a national level. Ron Shafer and Bill Miller liked the idea, but they were concerned about expanding their business without having adequate assurance that we would continue to use their construction services. I couldn't fault that. It was obvious that they would need to make a significant capital investment in their business. This would be at considerable risk if something went wrong with us as their sole customer.

The fifty-fifty joint venture was the solution we were looking for and resulted in the creation of a new general contracting firm called First Florida Building Corporation. This new company gave Burger King the benefit of having the services of a general contractor who was experienced in building our restaurants on a cost-efficient and timely basis. Under the leadership of Bill Miller, First Florida became one of the largest general contracting firms of its kind in the United States. Initially its sole specialty was the construction of Burger King restaurant buildings. The repetitive nature of this activity resulted in major cost and timing efficiencies, which were of considerable benefit to the company and its franchisees. The company became so efficient that they were able to deliver restaurant buildings within forty-five to sixty days of breaking ground. This played a vital role in helping us reach our overall corporate objectives regarding growth and expansion.

We hired William C. Murphy, a graduate of the School of Architecture at the University of Miami, to help us with this expansion. His job was to design and draw up plans for all of our new restaurants. Over an extended period of time he took the exams necessary to become licensed in practically every state in the country. There was barely large enough space to hang all of

the framed certificates bearing witness to this young man's extraordinary status as an architect engaged in national construction projects. We were very proud of Bill, and with him as a valuable member of our management team, we expanded the Burger King business into cities and towns all over the country. We were on a successful mission and we were enjoying it.

First Florida quickly demonstrated its talents as a low-cost producer of restaurant buildings. The company became so efficient in constructing quality buildings for Burger King that it took on construction responsibilities for many other fast-food chains. They were faced with the same problems we were, which was to find a building contractor able to consistently deliver quality construction on a timely, reliable, and cost-effective basis. First Florida served us and its many other customers very well. At any given time, they might have fifty or more restaurants under construction all the way from Maine to California. Our First Florida venture was another innovative industry first in the rapidly expanding field of chain restaurants.

Within the space of a few years, Burger King had three in-house quality distributors and producers in Distron (food and supplies), Davmor (equipment and furnishings), and First Florida (restaurant construction). These three companies shared in our success and rendered considerable assistance in helping the Burger King organization grow steadily and predictably during the early years of our national expansion.

Davmor Industries served the company for over a dozen years, but with the rapid growth of chain-restaurant organizations, other manufacturers came forth with a willingness to invest capital and compete for this business.

Davmor and Distron were created when there were few, if any, suppliers who were interested in or capable of providing the kind of services we had

to have. Each restaurant needed a one-truck, one-stop, daily delivery of our complete line of food and supplies. There wasn't enough business of this kind to attract purveyors during the early years, so we had to do it ourselves. Out of necessity, we created and pioneered a completely original concept in the distribution and manufacturing fields. Many years later, when multi-unit restaurant chains were common, highly specialized companies were organized to supply this kind of service and became hugely successful as a result.

We sold Distron in 1992 to Pro Source. In 1996, their CEO, David Parker, told me they were operating in every state from thirty-three strategically located distribution centers, which were utilizing 2.3 million square feet of space. Sales were running at an annual rate of four billion dollars. They had 593 tractors and 831 refrigerated trailers in operation, and 3,500 employees on the payroll. Pro Source purchased the Distron business from us for slightly over $100 million. That certainly represented a big jump from the days when my 1956 Ford station wagon was the sole delivery vehicle.

With the growth and expansion of the 1960s and 1970s, independent suppliers came into existence intent upon capitalizing on the opportunities of doing business in such a lucrative market. We always knew that our three start-up companies would attract competition. Many franchisees, who started out very slowly and modestly during the late 1950s and early 1960s, had no previous experience in purchasing, procurement, or construction. Over time they grew into much larger businesses. As they gained experience, sophistication, and financial independence, they were able to contract for services and supplies from a number of different organizations, all of which were organized and anxious to serve them. Our franchisees began to challenge the idea of purchasing supplies and services from companies owned by or affiliated with the parent Burger King organization.

Franchisees value their independence and usually prefer to do business with outside contractors. Our franchisees were not obligated to purchase supplies from us, and we expected that they would ultimately try to seek sources of procurement on the outside. A gradual withdrawal of their support for Davmor Industries and First Florida Building Corporation might have been heavily influenced by the desire to be more independent in their search for value.

Davmor Industries was sold, and First Florida entered new and different fields of construction activity. Distron remained a company subsidiary until it was sold to Pro Source, but all of these affiliated companies played key roles during the early years of Burger King's national expansion. Without their support and the timely services they provided, we would have had a much more difficult time expanding the business.

As the saying goes, necessity is the mother of invention. We knew that growing and staying on top was a matter of critical concern if we were ever to become a nationally recognized restaurant chain. When met with the obstacles put in our path, we did not hesitate to step outside the box and invent a new method of meeting our needs, and in the process founded three more successful companies which would go on to great success.

Chapter 15

SCRAMBLING TO STAY IN THE LEAD

The opening of the five hundredth Burger King with Jim Miller in Omaha, Nebraska, in 1969

By 1965, the rapidly expanding food-service industry was a topic of considerable discussion in the financial world and in the trade press. It was big news that people who invested in restaurant franchises were making a lot of money. The country woke up to the fact that the restaurant business was a field ripe with opportunity. Stories about this kind of success were mentioned in newspaper and magazine articles across America. The increasing use of television advertising by leading companies such as McDonald's and Burger King contributed to building a national awareness about the advantages of eating out. The compelling message was that consumers could get good food, served quickly and at low prices, in clean restaurants. This is what the public was looking for. The restaurant industry's sales and profits grew impressively while sales in the nation's grocery stores began to flatten, and fast food was suddenly the hot ticket.

On April 15, 1965, McDonald's Corporation went public. This event stimulated growth and expansion within the fast-food industry like nothing had ever before. Exactly ten years earlier, Ray Kroc opened his first McDonald's restaurant in Des Plaines, Illinois, a community in the Greater Chicago Area. Both events were historic. This public offering was one of the most extraordinarily successful underwritings of all time. It was issued at $22.50 per share, and by the end of the first day of trading it was selling for thirty dollars per share. Within a few weeks it had more than doubled to forty-nine dollars per share. Investors clamored for the stock, feeling that they were looking at a good thing. They were right about that. One hundred dollars invested in McDonald's stock in April of 1965 was worth well over a half million dollars in 1996. By then the market value of this extraordinary company had reached $35 billion. This was phenomenal growth—unparalleled in the history of the restaurant industry.

The investing public's fascination and attraction to McDonald's focused more public attention on the growth opportunities available in the food-service field. Within a two-year span, several other restaurant chains followed the McDonald's initiative by coming out with their own public offerings. Investors hoping to find the next McDonald's snapped up these issues. Jack Massey, an astute businessman in Nashville, and John Y. Brown, a young entrepreneur who later become governor of Kentucky, bought Colonel Harland Sander's interest in his Kentucky Fried Chicken business for a meager two million dollars in cash. Reorganizing the business concept and launching a professionally conceived franchising program, they brought out a public offering of Kentucky Fried Chicken. It was an instant success. Royal Castle in Miami and the Howard Johnson Company followed with their own offerings of stock a short time after that. These events were met with success and strong public acceptance. Restaurant stocks were suddenly very much in demand, and this brought about a frenzy of activity on the part of a new breed of opportunistic restaurant-company stock promoters.

I wasn't particularly concerned about the competition that had come to life during the 1960s and early 1970s. It seemed to me that most of these newly formed restaurant companies were organized by promoters who had an eye out to make a quick dollar on the sale of franchises. They weren't restaurant operators. Their lack of experience in the restaurant business led them to downplay the need to develop a long-term approach toward running their businesses. Most of them paid a minimal amount of attention to restaurant operations once their franchisees opened for business. They either abandoned them completely or failed to assist them in focusing on the basic fundamentals of running good restaurants. With this kind of organizational chaos and lack of experience, it was predictable that their franchisees would have a tough time making a success out of their new businesses. As far as I

was concerned, these people were on a road to certain failure. It was just common sense that if enough franchisees failed, the franchisor couldn't be very far behind.

A company called Minnie Pearl Fried Chicken was a perfect example of this kind of a doomed-to-failure business promotion. Minnie Pearl was a well-known and respected Grand Ole Opry headliner who lent her name to a restaurant scheme that turned out to be one of the most notorious restaurant-franchising fiascoes in the history of the food-service industry.

The promoter of this enterprise planned to duplicate the success of the Kentucky Fried Chicken concept by copying their franchising and operating format. Laying claim to become "the Pepsi Cola of the fried chicken business," he began to sell large "exclusive territories" to gullible investors, along with the promise of vast riches to be earned selling Minnie Pearl Fried Chicken. In each franchising agreement, the promoter obtained a commitment from territorial franchisees to open a specific number of Minnie Pearl Fried Chicken stores within a specified time frame. Each territorial agreement called for a specific fixed-dollar payment to the franchisor. This charge was calculated on the number of stores opened in each territory. The actual cash payment to the parent Minnie Pearl company was minimal. The promoter accepted the franchisees' note for the rather substantial balance of the purchase price. For example, if a franchise contract called for the development of twenty stores in a particular territory, the agreement called for the payment of $5,000 per store, or a total purchase price of $100,000 for the territory. A typical arrangement for the purchase of a $100,000 territory required a cash payment of $10,000 and the delivery of $90,000 in notes. The notes were payable at the rate of $5,000 per store, whenever the stores were opened. As incredible as it sounds, the company reported the entire $100,000 as earned income as of the date the contract

was signed. Reporting this as "earnings" was justified by the reasoning that this was what the territory had been "sold" for. Just as surprisingly, Minnie Pearl's external auditors and accountants deemed this misleading and absurd accounting treatment acceptable. The result was that investors were given a grossly distorted view of the company's true earnings and financial condition.

Initially this did not seem to matter to investors, because suddenly Minnie Pearl was a big hit on Wall Street. The company went public in 1968 at twenty dollars a share, and by the end of the first day's trading, the stock had more than doubled to over forty dollars per share. Within a short period of time, the market value of the company based on its stock price was $81 million, yet it had assets of only $2.2 million, and only had five restaurants in actual operation, none of which were doing very well. Apparently, investors never bothered to consider whether the notes the company had received could ever be paid off or whether the restaurants would ever be operated at a profit. As it turned out, neither happened. Very few payments were ever received on the notes, and before long the company was bankrupt and declared a colossal failure. Investors lost millions. The scam artists walked away with plenty.

This happened dozens of times with similar stock and franchising promotions. However, with well-operated restaurant companies, it was a different picture. McDonald's public offering in 1965 was an extraordinary success. Kentucky Fried Chicken followed soon afterwards, and it, too, was well received. After their public offering, Kentucky Fried Chicken reached a market capitalization of $364 million, which at one point was over one hundred times their reported earnings, but even these earnings were based more on profit gained on franchising than on operations. Fortunes were made on two public sales of KFC stock. It was small wonder that "the suede-

shoes boys," (as I often called the franchising promoters of the era), wanted to participate in an industry with this kind of action.

By the late 1960s, there were dozens of restaurant-franchising schemes afloat, and investment bankers were clamoring to take profitable restaurant companies public. I often thought that if we had maintained our corporate independence for just a few more years, the ultimate fortunes of Burger King Corporation might have turned out differently. We were one of the solid companies in the field, but the timing of our intentions to become a public company couldn't have been worse.

The sudden and extraordinary public interest in the restaurant business did not go unnoticed by our multi-unit franchisees. We had issued a number of territorial franchise agreements in the early 1960s in order to stimulate the rapid growth and development of our national development program. This was a key strategy in building Burger King's national presence, and it produced the desired effect in a number of key markets. By 1967 we had helped to create several small chains operating within the Burger King system, but there was good and bad in all of this.

By 1967, many of our territorial franchisees had been in business long enough to post impressive earnings records. They had built successful companies within the Burger King system. Their success attracted many prospects seeking franchises of their own. This is what we were looking for. Our successful territorial franchisees provided bedrock support for the Burger King system when it was relatively unknown.

Our New Orleans-based franchisees, Jimmy and Billy Trotter, formed a company called Self Service Restaurants. They were successful operators of Burger King restaurants in Louisiana and parts of the Gulf Coast. They took their company public in the late 1960s. Mallory Restaurants, our Long Island

franchisees, went public a year or so after that. It was when our three territorial franchisees in the Chicago area joined together with the intention to go public as one entity that I had to draw the line. We had not counted on having a number of public companies as franchisees.

On February 5, 1969, I delivered a memorandum to all franchisees, "Respecting the Assignment, Sale or Disposition of Restaurant Licenses." This policy had the effect of restricting franchisees from going public. At least for the time being, this put an end to this practice. Having the general public as franchisees could have created some nasty problems.

Dave and I were keeping our eye on McDonald's and tracking their growth. Our rate of expansion was about the same as theirs during the early 1960s even though they were opening many more restaurants than we were. We estimated that we were trailing them by approximately forty months. We believed that if we handled things properly, we had a reasonable chance of catching up to them.

I was troubled by the fact that McDonald's, as a result of their public offering in 1965, was able to tap the financial markets and we had been unable to do that. This gave them a clear advantage. Their real estate strategy was not only masterful; it was downright brilliant. They kept buying or leasing land and constructing their buildings using their franchisee's lease deposits as down payments. They relied on franchisees' rental payments to help retire any real estate obligations they assumed. Their investment banker observed at the time that McDonald's strategy to go the leveraged route rather than the equity route in its real estate dealings was "an exquisite decision." By the mid-1960s, we were trying to develop a similar strategy, but the risks involved appeared to be too great that early in our national development program.

As we opened new restaurants in cities and towns all over the country, our confidence grew. All of these restaurants were successful, giving us the encouragement to gamble a bit more. Accordingly, we adopted a strategy of buying land and constructing our own buildings to then lease to franchisees. We also entered into lease arrangements for land and buildings built-to-suit by outside investors, after which we offered them to our franchisees on sublease arrangements. We weren't smart enough or financially strong enough to do things the McDonald's way, but our real estate operations did play a profitable role in our overall business strategy. We began a search for long-term financing in order to increase our investments in real estate. It was easy to see that this side of our business could become a very profitable business strategy.

The high price-earnings ratio or "multiple" that the public placed on McDonald's stock often exceeded forty times their earnings. This highly valued stock gave them a reason and an opportunity to buy out franchisees. By valuing the franchisees' businesses on the basis of a lower multiple of earnings, they could pay for it by issuing their own highly valued shares. This practice went on to a certain extent and had the effect of steadily increasing McDonald's earnings per share. This helped to drive up the price of their stock even further, and in turn, enabled them to continue their aggressive expansion into the real estate business. During the thirty years or more following the date of its original public offering in 1965, the company never reported a "down" quarter. This extraordinary performance of over 125 straight calendar quarters of increased earnings per share certainly is an enviable record and a tribute to the company's strength, vibrancy, and leadership.

Our concern at the time centered on McDonald's access to the debt and equity markets. They had pulled out in front of us in terms of profitability

and the number of restaurants opened. It was obvious that it would be difficult to keep up with their future growth without a financial infusion of some kind. What were we going to do? We needed capital to stay in the race, and we needed to find it rather quickly.

In 1964, Dave and I reviewed our own situation. We concluded that we should try to purchase additional equity in the company. Harvey Fruehauf owned close to 50 percent of our stock. He acquired this interest eight years earlier when he first invested in the company. Dave and I each owned a bit less than 25 percent apiece, a very small percentage of shares were owned by our other two directors, George Storer and Tom Wakefield. Tom had been our attorney and general counsel during the past ten years. Recently we had issued stock options to employees, including one given to Dr. Nichol.

Dave and I talked to Harvey about purchasing an additional interest in the company based on whatever the fair market price of the stock might be at the time. This seemed to us to be a fair and reasonable proposal, so I was a bit surprised when our suggestion appeared to upset him. I thought it would make sense for the stockholders to encourage us to make a larger investment in the company.

This forced me to consider my own situation, which was becoming a bit more difficult all the time. Evaluating my own equity position in the business was complicated by the fact that the company was now considering the eventuality of an equity offering of its own. If we were to do that, this would dilute my equity position even further. A decision needed to be made, and the public offering by McDonald's raised the level of urgency. In the event of a public offering of Burger King stock, I would find myself in the position of owning less than a 20 percent interest in the company. This would be further reduced as we made acquisitions, issued more stock, or

granted additional stock options. Dave and I had never asked the board to grant us stock options, and as president of the company, I never put a proposal of that kind on the board agenda. I was prepared to remain a minority stockholder so long as Burger King remained an independent company. It was clear to me that if Burger King was to become a public company, with Dave and I in a shrinking equity position, we would have less assurance of having a strong voice in determining corporate policy and directing its future affairs. This was but one of many questions and concerns that was on my mind at the time.

When a call came from the Pillsbury Company a year or so later asking if we would be interested in discussing the possibility of a merger, it seemed to be an idea at least worthy of consideration. Before receiving that call, we were thinking in terms of having an equity offering of our own. Harvey Fruehauf proposed that we talk to Blyth and Company about this and suggested that he and I go to New York City to look into that possibility.

Harvey was a director of Georgia Pacific Corporation and serving with him on the board was Stuart Hawes, the current Chairman and CEO of Blyth and Company. Harvey's suggestion that we discuss a Burger King equity offering with Blyth seemed like a good idea, even though I was totally unfamiliar with matters of this kind. Having no prior experience dealing with investment bankers, I was on strange turf, but I thought it might be high time for me to learn something about it.

Dave and I had spent a considerable amount of time developing Burger King's strategic business plans. Both of us were completely familiar with the company's extraordinary profit-making potential, and going public, in spite of certain disadvantages, was clearly our preferred route to grow the business. We approached the idea with a determination to make it happen.

Harvey and I flew to New York and checked into the Regency Hotel on Park Avenue. We went out to dinner and spent the evening talking about our situation and what we might encounter in the morning. Our appointment with Mr. Hawes was set for 10:00 a.m.

After breakfast we took a cab to the offices of Blyth and Company. I could not help but be impressed by the elegance of their office with its huge mahogany doors, thick carpets, and polished antique furnishings. The design projected visions of wealth and prosperity. With only a limited knowledge about the stock market, I was unfamiliar with the process and implications of going public. I reminded myself that the only course I had failed at Cornell was Corporation Finance. In my business career up to this point, I had never crafted a complicated financial scenario designed to structure a large business organization, and this was hardly the best time or place to be learning all about the world of high finance.

I presented a package of financial information, which included our business plan, earnings history, balance sheet, and some information that explained what Burger King was all about. Mr. Hawes invited Edward Glassmeyer, a senior vice president of the firm to join us. Glassmeyer had been involved with Blyth's underwriting of the initial public offering of Ryder System, Inc., the Miami-based truck-leasing firm. The two men examined our balance sheet and income statements, looked at our cash flow projections, our record of previous earnings, and the growth of our business in terms of new restaurants we had opened over the years. Our after-tax earnings for the year ending May 31, 1965, were $446,239, and our projection for the current year was in excess of $750,000. Considering where we had come from, I thought that this was a noteworthy achievement. As it turned out, Blyth and Company did not seem to be nearly as impressed, even after considering our projections for future growth.

We might have been standing in the center of financial power in New York City, but we were talking to the wrong people. I learned later that Blyth and Company was banking for older, more established companies and institutions. They were mainly in the business of marketing bonds rather than underwriting equity offerings of small companies such as our own. After discussing our financing goals and objectives and listening to their reactions, I concluded that Burger King would not prove to be a very exciting prospect for them.

We left our package of information for them to study and flew back to Miami. I could not see how they could not recognize that a public offering of our stock would be a success. Such a conclusion was an indication of how little I really understood about the world of investment banking.

We returned to New York a short time later only to be greeted with some disappointing news. Blyth told us that even though we had a rapidly growing business with impressive earnings growth and optimistic prospects for the future, we were too young, inexperienced, and undercapitalized to think about going public at this time.

This was discouraging and disappointing news. If I had been more familiar with the many different ways investment bankers served their clients, I would have suggested that we take our proposal to a more aggressive firm that specialized in small entrepreneurial situations like ours.

Many months later, I was in New York visiting Ed Glassmeyer. Walking down Park Avenue, he spotted Howard B. Johnson, the son of the founder of Howard Johnson's, who was headed our way. Blyth and Company had recently served as a lead banker in the Howard Johnson's Company's public offering. Glassmeyer introduced me to young Johnson, who was then CEO

of the company, but he seemed to be aloof and disinterested in our conversation.

The Howard Johnson's Company had grown like Topsy, and with eight hundred restaurants in operation, they were acknowledged to be the largest restaurant chain in the United States, if not in the world. Nevertheless, at the time of our discussion with Blyth and Company, I was convinced that the Howard Johnson's organization was a company in big trouble. I had never been impressed with the company, its management, or the way they ran their business. I couldn't understand why Blyth and Company had underwritten this public offering. I remember a story that appeared twenty years later in the Boston Globe. The headline was in bold type and it read: "The Rise and Fall of Howard Johnson's. The father built an American institution; the son will be remembered for its demise!"

During the 1960s, lifestyles began to change rather fast and so did the eating preferences of the American people. It was obvious to me at the time that the Howard Johnson's Company was having difficulty keeping up with all of this change. What had worked so well for them in the thirties, forties, and fifties was no longer acceptable in a changing consumer market. Their management organization seemed totally oblivious to the fact. As business declined, their restaurants fell in varying degrees of disrepair. By 1966, I could not help but believe that this company was doomed to failure. I was reminded of the old expression, "The pack will run as fast as the lead dog." The lead dog in this case was a cripple.

Within fifteen years of meeting with the younger Mr. Johnson on Park Avenue, his company had been sold, split up, and essentially put out of business. The British firm Imperial Group plc bought the company in 1980, and with a $700 million investment, sold it five years later to the Marriott

Corporation at the fire-sale price of $162 million plus the assumption of $138 million in debt. A once great company stumbled and fell, and this reminded me again how vulnerable any successful business can be once it loses touch with consumers and the market it serves.

When we were talking with Blyth and Company, Burger King was at a critical time in its history. With 206 restaurants in operation in May of 1966, we were ranked as one of the largest restaurant chains in the country. The fledgling fast-food industry was still in its infancy, but very few chains could lay claim to having more restaurants in operation or be expanding at a faster clip than we were. The question before us in 1966 was how we were going to finance the company. We needed to grow the business at a rate to ensure and maintain our leadership position. We had a huge opportunity before us, but despite our impressive record of growth, earnings, and momentum, we still lacked the capital we needed to expand our business like we knew we should.

Disappointed with our continuing discussions with Blyth and company and knowing that we would have to find another way to keep Burger King in its leadership position, I hailed a cab for La Guardia airport and headed home to Miami.

Dave and I both felt that we could achieve our ambitious goals if we worked hard and followed certain basic operating fundamentals in running our business. We believed that adopting a corporate strategy consistently recognizing the preferences of the American public meant we had to succeed. With our energy, commitment, and faith in what we were doing, there was no way to fail. There was a lot of work to do. If we were going to keep pace with the leaders and the thundering herd of newcomers who were

right on our heels, we had to make some important decisions about corporate strategy.

Jim Was a Wise Man

Jim was a man with impeccable integrity, fair-minded, and of high moral character. He was a competitive golfer and focused on the challenges of each shot and the game at hand. I had a low single-digit handicap, but I never beat Jim.

Jim took these positive traits to the business world and became a winner and leader in that arena. I opened my first Burger King in Texas in 1963, and several more a short time later. We were not making money and I was faced with the situation of not being able to pay my bills. The purveyors agreed to carry me for a length of time, but I was confronted with the hard decision of what to pay: banks, rent, utilities, payroll, or royalties. I was embarrassed when I called Jim and Dave and explained my financial plight. I requested to delay paying royalties and advertising until I became profitable. They were agreeable and gave me words of advice and hope. Jim and Dave had created a unique restaurant concept that was durable, had legs, and would be viable for over sixty years. Each of us franchisees would benefit and build our restaurants using this triad: inside seating, the broiler, and of course the famous "Whopper."

In the early 1970s, there were several companies interested in buying our Texas restaurants and development agreement. One day I received a call from Jim and Dave. They said they knew I had other interested buyers for my Texas restaurants, but they wished I would sell to Pillsbury. I was conflicted, because others were ahead of them in their due diligence to buy our company. We agreed to share numbers and quickly work through the process.

In the early 1970s, I was young and inexperienced in selling companies with the size and development potential of our stores. My choices were to continue building Burger Kings in Texas and Connecticut or sell one or both companies. I decided to sell the Texas Burger Kings. In those days, a seven-figure number multiplied many times over was a lot of money to a newly married father with a son to educate and send to college.

Pillsbury was not the highest bidder for our restaurants—not close. But I remembered hanging up the phone and being embarrassed for not being able to pay my royalties. I remembered the support and encouragement I received from Jim and Dave and went with them because they had invested in our relationship.

Pete McGuire, Dallas and Connecticut Franchisee

Chapter 16

THE DECISION TO JOIN THE PILLSBURY COMPANY

Jim sold Burger King to the Pillsbury Company.

Halfway through the fiscal year ending in May of 1966, it became increasingly evident that McDonald's was growing much faster than we were. The gap was widening. They had real financial strength, a proven real estate development formula, and ready access to the financial markets. These were advantages that we didn't have. With the tremendous momentum they had received from the success of their recent public offering, I didn't see how we could catch up to them unless we could strengthen our own financial position.

Even though we were lagging behind the leader in terms of size and earnings, we were still regarded as the number two company in the hamburger segment of the fast-food industry. Our challenge was to stay in that position by getting the capital we needed to expand the business. Our ability to develop real estate would be the key to our future success, and that would require either a lot of new capital or a clever way to finance our property acquisitions.

On a personal basis, there were many things going through my mind in 1965, all of which would have a decided impact in determining the future direction of the company. I was particularly discouraged after our initial and disappointing talks with Blyth and Company. There was also not much comfort in the realization that I was unable to increase my equity position in Burger King. I had hoped to be able to purchase a larger interest in the company, but with that opportunity unavailable, I had to consider the alternatives. Perhaps most important of all, this was the point in my life when I needed to cash in some chips and start to enjoy the fruits of my labors. In the calendar year of 1965, my Burger King salary was $32,500. After taxes were taken out, I had less than $27,500 to support my family. I had no other source of income nor did I have any other form of liquidity.

Nancy was trying to run a decent household on my salary, while I was trying to provide for Pam, aged nineteen, Lynne, aged seventeen, Whit, aged thirteen, and little Susie, aged eleven. It was not easy. These children needed clothes, money for college, and many other things that I couldn't provide. I was desperate enough to ask Harvey Fruehauf for a personal loan just to see us through. Looking back on it, this entire situation was just a bit crazy. Even though the company was making a substantial profit, I was not able to provide Nancy and the family with a decent living.

I'm sure that if I had asked the board to increase my salary, they would have done it. My reluctance to make such a request was more a matter of pride than anything else. I felt, as Harvey did, that our best strategy was to plow all of our profits back into the business. I was a tight-fisted manager when it came to controlling costs. Dave, Harvey, and I were strongly motivated to build our corporate reputation by reporting an impressive record of steadily increasing earnings while focusing on adding to the net worth of the company. Our board of directors never thought twice about declaring dividends, and we never got to the point of paying out bonuses based on individual job performances. Our strategy was to concentrate on building the capital floor of the company and expanding the business as fast as we possibly could.

When the Pillsbury merger proposal came to us, I was inclined to open discussions with them. I explained my position to Dave, who indicated that he was willing to consider the matter even though he did not seem enthusiastic about the idea. Dave was a close and valued friend, associate, and confidant, and he was always supportive of my family and me throughout our long-standing relationship. I am sure that he was willing to go along with my wishes even though he might have preferred to see the company remain independent. Dave was considerate enough to understand

that I had a wife and four children to support. I told him I thought we could negotiate a satisfactory selling price and my personal situation was heavily influencing my preference for selling. Dave told me that he was willing to look over the Pillsbury proposal.

We took the idea to Harvey, who seemed even less enthusiastic about it, but he sensed that it was Dave's and my desire to take a serious look at it, so he never strongly objected. I believe he would have preferred to continue as we were, tough it out, and remain independent, but neither he nor his son Bud (Harvey, Jr.) ever suggested that we reject Pillsbury's overture.

Though our discussions with Blyth and Company produced nothing tangible, I kept in touch with Ed Glassmeyer of Blyth, trying to work out some sort of a plan to finance Burger King's growth. In March of 1966, he proposed a stock-purchase plan with a repurchase agreement. This had a significant "kicker" included for Blyth, which none of us liked at all. After I reviewed the plan with our board of directors, we rejected the idea.

We tried everything else we could think of to beef up our finances. Bob McDanald, who was executive vice president of the First National Bank of Miami, supported us by increasing our revolving line of credit, and he tried without success to help us secure better arrangements for long-term financing, which we desperately needed to expand the business. If there were any creative financing schemes that might have been available, we were unable to come up with them.

During a trip to New York, I called on Walter Dennis, an executive vice president of the Chase Manhattan Bank. I met Walter at Harvey Fruehauf's ranch in Texas when Harvey asked me to spend a few days with him to meet the directors of Georgia Pacific Corporation whom he had invited to a barbecue dinner. This gave me the opportunity to talk to a number of them,

including Mr. Dennis, who seemed interested in my story about Burger King. After several meetings with Walter in New York City, the disappointing news was that he could not come up with an acceptable financing plan. We kept on trying, but nothing seemed to work.

In the next few months I met with key executives of leading financial firms in New York City, including Stone and Webster, Eastman Dillon Union Securities, Francis I. DuPont, Carl M. Loeb Rhodes, Irving Trust, John Hancock Life, and MassMutual. On one occasion, I talked with the president of John Hancock about becoming a financial backer. After looking at our situation, they offered to consider a loan, but they asked for a big percentage of our stock as a bonus for making it. I told them that we were not interested in that. It reminded me of the expensive financing arrangement that McDonald's was forced to accept during their earlier years. McDonald's recent public offering and its phenomenal success increased the pressure to come up with some creative financing, but the year 1965 ended with nothing in sight.

Kentucky Fried Chicken became a public company in 1966, and immediately following that, our major competitor in Miami, Royal Castle, went public too. The pressure continued to mount. On February 2, 1966, Harvey and I met again with Blyth and Company to discuss the possibility of going public. On February 4, I had a long talk with Harvey about our already high debt-to-equity ratio and the need to obtain additional working capital. We were constantly dealing with questions related to financing the growth of our business.

I received a call from Jim Moore on March 26, who identified himself as president of JMB Consultants in Chicago. He said that the Pillsbury Company was interested in talking to us about the possibility of a merger

and asked if I would be willing to meet and discuss the matter. I agreed and we met for lunch on March 30 along with Ted Judge, a Pillsbury vice president who was then head of their mergers and acquisitions department. During the luncheon I learned that Pillsbury's interest in Burger King had been aroused by reports they had received from their Booz Allen Hamilton consultants.

I gave Judge the general overview of Burger King—our history and recent growth, together with a general assessment of Burger King's growth opportunity as we saw it. I asked him to fill me in on Pillsbury and he provided some pertinent information in that regard. He asked what I thought the company might be worth. I told him that we had used twenty million dollars as a value in contemplating a public offering, and that I thought this was a figure that our board might be willing to discuss. I based this on twenty times the after-tax earnings we expected to make in our next fiscal year. The meeting produced nothing conclusive, but both of us had enough to think over. I needed time to inform our board about these discussions, and I asked Judge to provide me with some information about Pillsbury to pass on to our directors.

The Pillsbury Company contacted us on March 26, 1966. Previously, they had retained the services of JMB Consultants of Chicago for the purpose of opening discussions with us about a possible merger.

I thought we had a pretty good record to show. In the fiscal year ended May 31, 1965, we reported earnings of $446,239 after tax and showed a net worth of $1,056,612 according to our independent accountants and external auditors Peat, Marwick, Mitchell & Co. When we reported results for fiscal year 1966 a few months later, we showed an after-tax profit of $758,008 and a net worth which had increased to $1,789,620. The business was growing

very rapidly by this time, and few companies in our field could match our consistent annual returns of 50 to 70 percent on equity.

On April 1, two days after the meeting with Judge and Moore, the Burger King board met. I informed the board about the interest that Pillsbury had expressed and shared with them the discussion I had a few days earlier with Moore and Judge. I also presented a proposal from Blyth and Company, suggesting that we revisit the idea of considering a public offering of our stock. The board decided that, for the moment at least, we would delay any further discussions with Blyth.

During the next two weeks we continued to meet with commercial bankers and investment bankers hoping to come up with a workable financing plan. On April 14, I informed Glassmeyer of our decision not to go public. The following day we received a $1.5 million long-term loan commitment from MassMutual. This was our first Burger King real estate financing package using straight debt, which became the format of many future and similar straight-debt financing arrangements we were able to negotiate. However, as our overall financial needs were concerned, this package fell far short of what we were looking for.

By mid-April, we were negotiating to acquire or enter into lease-back arrangements on seventy-six store sites in different cities all over the country. Most of these deals involved developers who built our units to specification, and then leased the property directly to us. In these situations, we could sublease the restaurant directly to our franchisees. Little or no cash was required under this kind of arrangement, so for a while we were able to continue our growth on this basis. What we were missing, of course, was a bigger infusion of capital and the opportunity to own and develop real estate for our own account.

The JMB consultants called on April 30 and advised us that Pillsbury was having some difficulty putting a proposal together. We heard from them only occasionally during the summer months which followed. I kept the matter in the back of my mind because we had other important issues to consider. At the time we were busy firming up a number of real estate financing packages with several large life-insurance companies.

Pillsbury's interest heightened again in late August of 1966. I went to Minneapolis on August 24 with our chief financial officer, H. Glenn Jones, and met for dinner with Pillsbury's Ted Judge and Walter Gregory, the JMB representative assigned to the negotiations. On the 25th and 26th we met with Pillsbury executives and toured some of their facilities. Discussions with the top executives of Pillsbury were interesting and focused on the subject of a possible merger.

On September 7, Walter Gregory called me from his Chicago office to ask if Paul Gerot (Pillsbury's chairman and CEO), Terry Hanold (their chief financial officer), and Ted Judge could meet with our board of directors in Detroit at a meeting we had scheduled for September 15. This was acceptable and the meeting took place in Harvey's office in the Guardian Building. They came to propose a merger consisting of a package of Pillsbury common and preferred stock. We looked it over, asked a few questions, and agreed to meet again within two weeks after we had an opportunity to consider their proposal in more detail.

Dave and I flew to Minneapolis on September 28 with our general counsel and board member, Tom Wakefield. We met Harvey and Bud Fruehauf, both of whom had flown in from Detroit. The five of us discussed the Pillsbury proposal before and during dinner. The following day, after a long meeting with Pillsbury management, we worked out a tentative understanding and

ended the day with dinner at the Minnekada Club hosted by Pillsbury president Bob Keith and Paul Gerot. After a brief wrap-up conference the following morning, we flew back to Miami and the Fruehauf's returned to Detroit. However, there was one thing missing. Gerot had made it clear that unless Pillsbury owned the Burger King trademarks, we had no deal.

The 1961 contract with Ben Stein gave us worldwide rights to develop Burger King. In that contract, we obtained the exclusive use of the trade names, service marks, and trademarks, and we assumed the responsibility to police and protect them. The only consideration we offered to Mr. Stein was the monthly payment of 15 percent of any royalties we collected.

By 1963, royalties were coming to Miami in ever-increasing amounts.

At the time we signed our contract with Mr. Stein, I instructed our bookkeeper to write a check every month for his 15 percent share and to provide a record of the restaurants that paid the royalties. We kept him totally informed about our new store openings. This enabled him to develop a greater sense of the future income he might expect to receive. I am sure that he could see that something of considerable financial significance was taking place. Each month our check to him was larger and larger.

Of course we could also see what was happening too. I had always known that someday we were going to pay Ben Stein a huge sum of money to buy him out. In 1962, a year into our contract, I remember his mentioning a sum of $100,000.

Unfortunately, such a payment on our part in 1962 was completely out of the question. My only response had been "Ben, I don't believe there is any possibility of our raising $100,000, but I'd like to think it over and get back to you at a later date." He said that would be fine, and that he was pleased to

see the progress we were making. I figured I would get back to him as soon as I could raise the money.

About six months later I called him again. Things were going even better; in fact, they were going extraordinarily well. Our franchisees were expanding, every one of them was operating successfully, and we had a backlog of franchise demand. Royalties were coming in at a rapidly increasing rate, and our future outlook was most encouraging. Profits were also coming in at a good clip, and we were plowing them back into the business. With the increased profits, we were generating enough cash flow from operations to keep our modest rate of expansion alive.

When I thought I could come up with $100,000, I called Ben and said, "About our conversation a few months ago, I've been able to come up with the $100,000 you mentioned. I'd like to go ahead with a buyout of our contract." His response was as quick as it always was. He just said, "Jim, I've been giving that some additional thought. You boys are doing a fine job of building your business and I think you are going to do much better in the future. Your royalties will increase substantially and so will my share. I think that the value of my interest is worth $300,000 today, and it will probably be worth much more later. I'm prepared to deal with you on the basis of $300,000. Why don't you think it over and let me know what you want to do." This was as much out of the question as $100,000 was the first time we talked. I decided to let the matter stand. We would grow the business, pay out the 15 percent every month and let it go at that. Without obtaining the financing we needed so badly, I didn't see any other alternative.

When negotiations with Pillsbury were underway during the latter part of 1966 and early 1967, we were paying Ben a substantial and growing sum of money every month. Pillsbury could see that if the business grew anywhere

near my projections that we would be paying Ben Stein a king's ransom every year. Then there was the matter of the trademarks themselves. Pillsbury chairman Paul Gerot called me and said, "Jim, we must have ownership of the Burger King trademarks. This acquisition won't work without them. Would you try to obtain them for us?" I said, "Sure, Paul—I'll just put the matter directly to Mr. Stein and get back to you. I'm sure he won't stand in the way of the acquisition, but I expect his price will be high."

I called Ben and told him what was taking place, noting that Pillsbury had offered to acquire our company but that it was conditioned upon their acquiring the trademarks and canceling our contractual royalty-sharing agreement. I asked him to give Pillsbury and me a price. He did not need much time to think about that. He simply said, "Jim, I believe it is worth $2.5 million today, and I would be willing to sell it for that." I just said, "Let me present that to the Pillsbury people," and hung up. I called Gerot who agreed to pay it. The contracts were drawn up and the closing was set at the same time as our own.

Pillsbury agreed to pay the $2.5 million to Ben Stein, who then asked for an extra $50,000 to include his attorney's fees. Pillsbury agreed to do this, thereby resolving the trademark-royalty issue that could have prevented the merger from taking place.

I was disappointed and a little annoyed when Stein reneged on the original deal and extracted the extra $50,000. It made no financial difference to Dave, Harvey, or me because the terms of our deal were agreed upon and understood by both parties. What bothered me was that Ben had changed his deal with them at the last minute. I was not used to doing business that way.

I thought Pillsbury was getting jerked around on this and I told Ben that I was upset about it, but aside from venting a bit of anger, my strong remarks counted for very little. Ben would receive a check for $2,550,000 when the closing took place, and if Pillsbury or Paul Gerot were upset about the extra $50,000, they never mentioned it to me.

Was our acquisition of Ben Stein's contract a good one? Perhaps the answer lies in the fact that by 1996, Burger King's system-wide sales were over $8 billion annually and royalty income would have been calculated at a rate approximating $240 million a year. If the contract and the 15 percent clause had been in effect at that time, Ben Stein's Jacksonville company would have been receiving over $35 million a year. Of course, it is doubtful that the agreement would have stayed in place that long before a settlement of some kind was arranged.

Meanwhile, our office in Miami was busily accommodating Pillsbury's accountants and lawyers engaged in a due-diligence process in an effort to verify all that we had presented to them.

Gerot and Hanold returned to Miami October 27 with the Pillsbury corporate secretary, Bob Hauer, to discuss remaining problems and reach final accord on a merger agreement. Harvey, Dave, and I finished our discussions with Gerot and Hanold and resolved all the major issues that were raised. We concluded with a luncheon at the Riviera Country Club in Coral Gables.

Gerot presented his recommendation to the Pillsbury board on November 1. On November 2 I received two calls: one from Gerot, who advised that his board had considered the matter and would meet again one week later to make a final decision; the other call was from Harvey Fruehauf, who said he thought we made a poor deal with Pillsbury. Harvey seemed to be upset

about the proposed merger. I was disappointed that he felt that way at this late of a date.

The following day, I met with Ben Stein and his lawyers from 9:00 a.m. until 2:30 p.m. He agreed to give us an option to close on the $2,550,000 million trademark-licensing acquisition until May 31, 1967. The option cost us $5,000.

The next day, Harvey and I met and resolved his concerns, and I advised Gerot that we were all in accord. The Pillsbury board met the following week and approved the merger arrangement except for certain terms involving the Pillsbury preferred stock. I talked with Harvey in Texas a few days later and he agreed with the changes that Gerot had proposed.

Harvey returned to Miami and met with Paul Gerot, Dave, and me on November 29. It was an all-day conference in our new offices. We had moved into a new two-story office building which we had recently constructed, having outgrown the office complex located in the rear of our Coral Way store number seven that had served us so well since 1957.

Gerot encountered problems with his Pillsbury board over terms of the Burger King acquisition he had proposed. The merger proposal was troublesome to a number of the Pillsbury directors because they believed the price being paid for Burger King was too high. The Pillsbury Company was originally one of the largest flour millers in the country. Only in recent years had they gone into the business of producing and marketing consumer food products. This was due in large part to Gerot's initiative and leadership in moving Pillsbury outside of its basic commodity business (grain and flour) and into a potentially more profitable business.

Pillsbury's net profit in 1966 was barely at the level of $11 million. With 4,399,678 shares of Pillsbury common stock outstanding and selling on the New York Stock Exchange at thirty-five dollars per share, the market capitalization of the Pillsbury Company was only $150 million.

To meet our asking price of twenty million dollars, Pillsbury proposed issuing 400,000 shares of common stock and a convertible preferred issue worth approximately five million dollars. We agreed to this formula, the effect of which would result in Burger King stockholders owning approximately 10 percent of the Pillsbury Company. This presented some difficulty for some of the Pillsbury directors, few of whom knew much of anything about the restaurant business other than the fact that it was risky one with a reputation for having a high failure rate. Another difficulty lay in the numbers and the fact that the Pillsbury Company would be getting into a business they knew nothing about.

There was a feeling that by departing from their basic business they could end up with a disaster on their hands. What if Burger King didn't produce? Gerot had his hands full. His proposal to issue almost $20 million of Pillsbury stock to acquire Burger King Corporation, a company with a tangible net worth of only $1.7 million and earnings of only $758,000 in fiscal year 1966, seemed to a number of directors a very high price to pay.

As Gerot explained to me later, his board seriously challenged him. "You are paying far too much for management," they argued, to which he replied, "Without this management I wouldn't want this acquisition at any price." Finally the board agreed to the proposed merger, asking for minor changes acceptable to us.

Afterwards Gerot flew to Miami to propose a definitive agreement. Harvey, Dave, and I worked with him in preparing a final understanding and turned

the matter over to our attorneys, the New York firm of Shearman and Sterling, with instructions to prepare and approve the appropriate documents. On January 19, 1967, Gerot and I made a joint announcement stating our intentions to merge the two companies, and I notified everyone in the Burger King family about our decision.

From the time of the announcement of our intent to join the Pillsbury Company until June 21, 1967, when the merger was scheduled to take place, we were kept busy with lawyers and accountants hammering out details based on the agreement we had reached with Pillsbury management. This involved a considerable amount of traveling between Miami, New York, and Minneapolis. The contract with Ben Stein to transfer the Burger King name and trademarks to Pillsbury was completed, and finally our own contract relating to the merger was drawn, agreed to, and signed. The closing took place as scheduled on June 21.

I met Nancy and our four children at the Minneapolis airport on the day after the merger took place. I wanted them to feel that the family had been a part of that special occasion. The children had grown up knowing Burger King was "Uncle Dave's and Daddy's company."

We took a cab from the airport into town so that I could introduce the family to members of the Pillsbury management group and show them some of their office facilities. It was understood that I would be elected to the Pillsbury board of directors at their annual meeting of stockholders, which would take place in September. I would join the Pillsbury management team immediately and stay on as Burger King Corporation's president and chief executive officer.

Another reason the family came to Minneapolis was because of a planned family vacation. After leaving the Pillsbury offices, we went back to the

airport and flew to Winnipeg, Canada, where we boarded a Canadian National train bound for Jasper in the Canadian Rockies. The train trip was another special event for the six of us. We had berths in a Pullman sleeping car and enjoyed a pleasant evening meal together as the train sped westward through the wheat fields and towns of Manitoba and Saskatchewan.

On arrival in Jasper the next afternoon, we rented a station wagon we had reserved. During the next five days we toured the magnificent mountain areas of the Canadian Rockies with their roaring streams, waterfalls, beautiful lakes, snowfields, and glaciers. Staying at elegant resort hotels such as Banff Springs and Chateau Lake Louise added to our enjoyment, as did the golf outings at Banff and Jasper. Afterwards we drove to Canada's Waterton Lakes National Park, where we stayed at the Prince of Wales Hotel. Everywhere we looked, we enjoyed spectacular vistas and scenery. We crossed the border into Montana's spectacular Glacier National Park, staying at the rustic MacDonald Lodge. Huge snow drifts along the "Going-to-the-Sun Road" were something to marvel at in early July.

Driving to Great Falls, Montana, we dropped off the station wagon and flew to Casper, Wyoming, where we rented another vehicle for the drive to the Old Baldy Club in Saratoga. This was only our second visit to Old Baldy—an experience that was to become an annual occurrence for Nancy and me, as well as a frequent occurrence for the children, and in more recent years the grandchildren as well. After a pleasant week at the club, we made the drive to Denver and the flight home.

I needed that vacation. For years I had been spending over a third of my time away from home, always on Burger King business looking for locations, working on leases, financing, and meeting with franchisees. The negotiations with Pillsbury and the more recent meetings with Pillsbury

management added to the demands on my time. It was wonderful to have the opportunity to spend a few weeks with the family, and I returned rested and enthusiastic about beginning my association with Pillsbury.

I returned to Miami challenged with my new role as a member of the Pillsbury management team and a director of the company. My personal situation after the merger took on a totally new dimension.

My salary was increased to $67,500 per year from the $32,500 salary I had been receiving prior to the merger. On top of that I was informed that I could expect to receive a bonus in the event Burger King met certain performance objectives. I had never received any income from dividends before because I never had any money to invest in the stock market. The Pillsbury stock I had received at our closing would pay me over $90,000 annually in dividends starting immediately, and there was the likelihood that dividends might be increased in the future. I anticipated that the value of my Pillsbury shares would increase over the years. This was based on my expectation that Burger King would boost Pillsbury's earnings, which in turn should have had a positive effect on the price of their stock. All of this added personal income was of considerable help in relieving the financial strain I had been under. I had the additional comfort of knowing that I could find a ready market for my Pillsbury stock in the event a financial emergency arose.

Pam had gone off to Florida State University in 1966, and Lynne was preparing to enter Miami University in Oxford, Ohio, in 1968. As far as my own personal financial situation was concerned, I was pretty much relieved of any further financial worries, and I was ready to focus all of my attention on running the business. It was very important to me that I do a good job as a member of the Pillsbury management team. I had a lot to prove to a lot of

people, and most of all, I wanted to prove to the Pillsbury board, Paul Gerot, and the Pillsbury officers that they had made a very good investment decision in acquiring Burger King. At forty-one years of age, I felt very good about myself and confident and excited about the future both from the standpoint of my personal situation and the prospects for the rapid growth and development of Burger King.

Looking back on our deal to merge with Pillsbury, I believe that Dave Edgerton and Harvey Fruehauf were absolutely correct in their assessment of the matter. Both of these partners believed that we should have remained an independent company, and although they agreed with me and were convinced that we needed to fortify our financial position, they would have preferred to do it on our own. I preferred to sell out for reasons that were perhaps a bit too self-centered. I don't believe I acted very intelligently in assessing our entire situation at the time.

Perhaps we could have explored a number of financial alternatives to keep our many financial options open and improved our personal stake in the business. The reality was that Burger King was destined to become a major player in an industry that was ripe with opportunity. The three of us knew that, and we knew that it would take some inept management to throw the company off track. Our system and our formula for doing business were too good and too strong to have that happen.

It is important to acknowledge that any major decisions made in the course of business come by utilizing the information and context available at that given time. Hindsight is the only perfect vision.

Harvey and Dave were right, and I was wrong about responding to the first buyout offer that came around. My mistake was that I was driven by the immediacy of my personal and professional financial goals and aspirations. I

had not exercised enough good judgment in considering all the aspects of the matter. I had been in business for myself for twenty years, and I still had not learned to hesitate, reflect, consider, and act before jumping into situations like this. By the year 2000, Burger King Corporation's value fell within a range of one to two billion dollars. It is the second-largest full-scale restaurant chain in existence. This is a tribute to a lot of people and organizations that helped create this value over many years.

One can only speculate about the results of a different strategy.

Influenced by a Leader of Leaders

Imagine these details, being eighteen years old, having arrived in Miami from Cuba six years and a couple of months prior, being hired by the Burger King corporate office (then over two hundred restaurants strong) as a Boy Friday, and starting in a department that was called Office Services.

When hired, part of the orientation process included a couple of key factors:

1. Burger King was founded by two individuals, Jim McLamore and Dave Edgerton. Photos of both were shown.

2. The company had recently been purchased by Pillsbury, the one with the "dough boy" icon, for a large sum.

As a Boy Friday, my job required me to be all over the corporate building. At the time it consisted of a two-story structure, which was not really big. I did anything that would come up, including adding gas to vehicles, picking up people at the airport, making coffee, washing dishes, etc.

Some Saturdays, Jim would come by the building and spend some time in his office. One day, while moving these huge file cabinets near his office, he asked my name, what I did, what aspirations I had, and a few questions about my coming from Cuba. "Take a break and sit down for a couple of minutes," he said.

Being curious myself, I asked him how he had started, which allowed him to give me the long version of his history, with a restaurant located in downtown Miami and the roadside stand where he and Dave came up with the name of the Whopper. I told him how my dad took me to eat a Whopper on the day I arrived in Miami, and how, up till then, I had not eaten meat for over a month.

What was fascinating to me was the fact the president of Burger King Corporation took time to talk to me—a puny little Cuban boy who was totally green, easily impressed, and his spending time with me made me feel special…actually important.

Young and naïve, I would ask him questions like, "Mr. McLamore, I just saw a rubber-stamp request come through from your secretary and it had the initials NFW. Can I ask what that means?" His answer, with a slight grin combined with a smirk (which was his trademark) was "That's for me to stamp requests that are senseless…it means NO F%$#@ WAY!"

After that, we became hallway buddies. After a few months working for the company, I moved to a different area (printing) within the same department. After two years, I

had taken a department consisting of one person and had built it up to twelve employees. He would joke with me about the growth of my department and how it compared to his story.

Jim became a mentor for me. He was the only individual I had met during my time in the USA who had "made it." He transmitted this calmness, confidence, and sincerity in his answers that became part of my education in the corporate-school world. He would often provide me with confidence-building comments, and share with me facts that were extremely interesting, like how he'd keep receipts forever and how he had engineered the Whopper to be a product where you would taste the ingredients as you bite into the burger.

I became an admirer of who he was, what he represented, and even became friends with the family. And it all started with a simple bit of curiosity on both ends.

Roland Garcia, CEO & Founder, Original Impressions

Chapter 17

COMING ABOARD

Jim in front of the "Whoppers Sold" sign as it nears one million in September 1993

In negotiations with Pillsbury I made it a condition that Burger King was to be treated and operated as an autonomous subsidiary. On June 26, just five days after the merger took place, Bob Keith wrote a policy statement, which to some extent served to reinforce this understanding. In it he said, "We have concluded that Burger King will operate in an autonomous fashion, and the conduct of Pillsbury people must be such that there will be no evidence of an invasion or no evidence of a takeover." Keith went on to say he felt that within Pillsbury were capabilities which would be of value to the growth and development of Burger King, and that, "at least during the first year of operation," it would be my prerogative to use these resources or not.

I expected that Pillsbury would take a more active role in determining the strategic direction of the company and jump in on a number of operating and tactical decisions as well. Unfortunately, Burger King's entrepreneurial, hands-on, seat-of-your-pants style of management was going to be challenged.

Pillsbury's annual meeting of stockholders took place on September 12, 1967, and I was asked to present the Burger King story. I explained our strategy for expanding the business and speculated about our growth potential. Paul Gerot retired from Pillsbury management as of that meeting and was recognized for the leadership he had provided during his thirty-eight years of service with the company. I made remarks to the effect that it was Gerot who had been the key engineer of the Burger King acquisition and it was our high regard of him and the representations he made that had convinced us to join the Pillsbury Company. I was genuinely sorry to see him step down.

I did not attend the September meeting of the Pillsbury board. I would be elected at the shareholders' meeting, which was scheduled to follow. Robert J. Keith was elected chairman and chief executive officer. Terrance C Hanold was elected president and chief financial officer. Keith had made Hanold's election as president a condition of his moving up to chairman. I was later to understand that this ultimatum did not sit well with the board. A number of directors felt that Hanold might not be the right person to serve as president. My own problems with Hanold were to surface almost immediately.

My first meeting with a member of the Pillsbury board of directors was in November. Bob Keith asked me to make some comments about Burger King, and I used the occasion to give reassurance to the board that they had made a wise decision regarding the acquisition. I gave them a little history of the company and reviewed the progress we had made in recent years. It was hard to hide my enthusiasm about the great potential of the growing fast-food industry and Burger King Corporation's leadership and participation within it. Knowing that several members of the board felt that Pillsbury might have paid too much for Burger King, I made a particular point of expressing the belief that within a relatively short period of time Burger King would become the main driving force and profit contributor to the company. My comments proved to be a highly accurate prediction of things to come.

I wrote a letter on December 19 outlining the proposal I wanted to make and asked the chairman to permit me to make a presentation at the January 1968 meeting of the board. It contained the suggestion that we create a public offering of Burger King stock within the near future. I intended to base my remarks on the fact that McDonald's and Kentucky Fried Chicken had recently become public companies and were currently selling at

extraordinarily high price-earnings multiples. McDonald's was currently selling at forty times earnings, and Kentucky Fried Chicken was at fifty-four times earnings. They were able to buy in franchisees by offering very high prices for their businesses. The "currency" they were using was their own highly valued stock. It was an ideal way to raise the funds needed to expand the business.

I told Bob Keith that I expected that Burger King's after-tax earnings in our next fiscal year would exceed $2.5 million and could grow easily to $5 million within a few more years. Burger King, as a public company selling on the basis of thirty times earnings, would have a minimum market capitalization of $75 million; at forty times earnings it might be valued as high as $100 million. Assuming that our earnings were to grow up to $5 million, the company could easily be worth between $125 million and $200 million, which would represent a substantial premium over the $20 million of stock they had just issued to acquire the company in June. My thought was that this would create a huge profit opportunity for Pillsbury while helping Burger King grow much more rapidly. I was driven to suggest this strategy because, after only six months as a subsidiary operation, I was already beginning to question Pillsbury's ability and its resolve to support the rapid expansion and real estate development strategy we wished to follow.

Burger King franchisees were well aware of the high prices investors were paying for restaurant stocks at the time. I believed that many of them would be interested in selling their business back to Burger King, particularly if it was a public corporation. Most franchisees wanted to stay in the system and continue to grow within it. For these franchisees it would be reassuring to know that there would always be a market for their business. The chairman seemed enthused with the idea and put me on the agenda for the meeting.

When I addressed the board, I called attention to recent acquisitions of major restaurant chains by large corporations—most of which were consumer food-product companies like Pillsbury. The list was impressive, and it helped create awareness about the growth potential in the food-service industry. Specifically, I called the directors' attention to a number of consolidations, mergers, and acquisitions which had recently taken place.

The entire away-from-home eating market, which was less than $10 billion when I opened my first restaurant in 1949, was only $23 billion in 1966, and the fast-food portion of that market was barely $3.5 billion. By 1996, Burger King alone would boast of system-wide sales of over $8 billion, and the industry itself would have grown to over $225 billion! The real opportunity years for the restaurant industry were still in front of us in 1967, so it was understandably difficult for people to think in terms of this being the right time to jump in with both feet in an industry that had yet to prove its real potential.

My six months as a member of the Pillsbury management team convinced me that Pillsbury was going to be timid and a bit reluctant to follow McDonald's aggressive lead in developing a growth portfolio of restaurant properties. I felt that if my proposal was adopted, Pillsbury would feel much more comfortable about Burger King's acting as a partially owned, but still independent company. They would hold a significant interest, but no obligation to pursue a highly leveraged approach to financial growth.

The board listened to my presentation with interest and asked some good questions. However, there was no further development of the idea by management, and the matter was ultimately dropped.

I learned an important lesson about corporate procedure: It wasn't advisable to bring my own agenda directly to the board of directors. This

was a job for management. It was their prerogative and responsibility. I had short-circuited the system by not knowing that this was prohibited procedure. Being unfamiliar with this new world of corporate procedure, I should have had more sense than to make such a grandstand play. One thing I did learn in making the presentation was that it was becoming apparent that the strategy involving Burger King's future growth had already been determined. Pillsbury would use conventional methods to finance Burger King's growth, and the pace of development would be much less aggressive than I had hoped.

Pillsbury invested several millions of dollars in additional Burger King equity, and they approved our borrowings up to maximum levels. This dictated that in the future we would need to conform to standard debt-equity ratios considered acceptable and appropriate by the rating agencies. By following conventional financing methods, we put a limit on the amount of debt which would later be available for real estate development. McDonald's had no such restrictions because their growth strategy did not provide for the use of conventional financing methods. Their unique financing method enabled them to own and control all their real estate because they financed each location on its own individual merits. Over the years, this strategy paid off handsomely and vaulted them into the enviable position as the largest owner of real estate in the United States. This strategy and their overall approach to real estate ownership has been enormously beneficial and advantageous to their shareholders.

At my urging, Pillsbury management took a look at the McDonald's financing strategy, but they backed away from making a commitment to a similar program. In that decision, aside from the loss of the tangible financial rewards that might have been gained, Pillsbury lost a certain

influence over the conduct of the franchisee community. This would become an increasingly important factor in future years.

As landlords, McDonald's could be more effective in insisting that franchisees comply with their required standards of restaurant operation. Poor operators could be eliminated when leases were canceled. It was a bit more difficult for Burger King to act in this fashion when our only leverage rested in our ability and right to enforce provisions contained in our franchise agreements. The real trump card was the lease itself. In McDonald's case, any failure to meet the company's standards of operation could result in the franchisee losing both the lease and the business. I doubt that many McDonald's franchisees were willing to seriously challenge the parent company in situations of this kind.

A sad moment for all occurred on October 14, 1968, when Harvey Fruehauf passed away. He had always been a good and valued friend, counselor, and mentor. I felt his loss deeply. I flew to Detroit to attend his funeral and spend some time with his wife Angela. I read a memorial resolution I had written, which was adopted by our board of directors. It speaks of the high esteem that all of us felt toward this remarkable man. It concluded with:

WHEREAS Mr. Fruehauf will be sorely missed as a friend, colleague, and advisor by all of our employees, associates, officers, and directors, all of whom knew him and held him in such high regard,

NOW, THEREFORE, be it resolved that the Board of Directors hereby express the sorrow so keenly felt by the passing of Harvey C. Fruehauf, and

BE IT FURTHER RESOLVED that this testimonial be spread upon the permanent records of the corporation and a certified copy hereof be transmitted to Angela Fruehauf, his beloved wife.

After the passing of H. Glenn Jones in 1968, our senior vice president of finance, a good friend and a dedicated employee, Leslie Paszat soon joined the company. Les would play a key role in the company well into the 1970s.

Terry Hanold and Paul Gerot had joined the Burger King board on March 10, 1967, a few months before the merger took place. Dave Edgerton resigned as an officer and director of Burger King on August 21, 1969. He could see the shift in both operating style and corporate culture, and he didn't care for either one. Dave's contributions to the Burger King organization ever since the beginning were legendary. His leaving was the end of an important era in the company's history. His departure served to remind me that things would never again be the same.

In 1971 Bob Keith and Gus Donhowe, the Pillsbury treasurer, joined the board, while Paul Gerot resigned. I felt that of all the Pillsbury people Paul understood the Burger King organization as well or better than any of them. Bud Fruehauf resigned from our board on November 21, 1973, and Tom Wakefield resigned a few years later. With these major changes in the makeup of Burger King's board of directors, the company became, for all practical purposes, an operating division of the Pillsbury Company. By the end of 1969, Burger King had ceased to be operated as an autonomous subsidiary and began to act in rigid conformity to the rules imposed by the parent company.

As early as 1968, I was extremely frustrated with certain aspects of our new relationship. Many of the comments and suggestions I made regarding issues seemed to be consistently at variance with those of Pillsbury management. This raised serious questions about whether I would ever succeed as a professional corporate manager. I had been my own boss throughout my twenty-year business career. In the new scheme of things, it

was necessary to consult, review, debate, and clear major actions with others. This wasn't a familiar or comfortable style of managing for me. I thought it was inefficient and difficult to become accustomed to.

My advice to anyone in a similar situation is this. When faced with the challenges of a management style that is at odds with your own, it is vital to remind yourself that adaptability is key. When in a leadership position within an organization, it is your responsibility to continue toward the common goal and hold yourself accountable to the promises you've made in taking on the role.

Chapter 18

FITTING INTO THE CORPORATE MOLD

Jim travelled to Japan to explore new markets for Burger King in 1969, but Pillsbury did not want to enter that market. McDonald's did shortly after.

Pillsbury's top brass sent an industrial psychologist to Miami in 1968, with instructions to report on the way Burger King was managing its business. He was directed to interview each one of our top executives, including me, and report back with his assessment of our management style, strengths, and weaknesses. I was not familiar with this kind of a process, but we cooperated fully. I thought he made a lot of quick conclusions, one of which was that I was much too involved with the details of running the business.

After he reported these conclusions to Minneapolis, I came under increasing pressure to delegate more responsibility to other members of my management team. The idea was for me to step away from running the company in the direct and hands-on manner that had always characterized my style of leadership. It was explained that it would be in the long-term best interest of the company for me to back away from the nuts-and-bolts side of the business and concentrate on the "big picture." It was their view that I should become more of a strategist and leave the day-to-day details of running the business to others.

I could understand that Pillsbury managers might have been trained to do this, and that large corporations probably had to function this way, but I couldn't agree that this was a positive step for us to take. I suppose that as a new member of the management team, I was expected to do things like they did in Minneapolis.

Developing a different management style would be difficult for me, and I was very disappointed and upset to be asked to change the way I had been running the company so early in our relationship with Pillsbury. I always felt the need to stay close to our top managers and very close to the decision-making activity. Over the years I had developed a deep sense of

commitment toward our franchisees, and I didn't want to weaken or tarnish that important relationship. To maintain my sensitivity to the business, I needed to keep informed about such things as real estate acquisitions, the granting of franchises, opening of new territories, financing the business, and the many other matters that contributed so much to our success during the early years. The idea of my backing away from such a direct and total involvement was unthinkable to me. It did not make sense to create such a major disruption in the style of management that worked so well during these critical years.

Warning bells began to ring in my ears. I began to think our entrepreneurially driven business was going to have a difficult time surviving in this strange new corporate relationship. Up to this point our management style had produced superior results and a corporate morale that was at an all-time high. During recent years we had averaged an annual return in excess of 75 percent on equity. We were one of the leading companies in our field. We were doing great, and our future prospects were very bright. It wasn't the right time to destabilize our leadership initiative, but the message was clear and we would have to begin to "do it their way." This was the opening salvo of the operational takeover of the Burger King business. Perhaps we should have expected that. I was just surprised that this sort of thing was happening to us so soon.

Respecting Pillsbury's suggestion, I elevated Art Rosewall to the position of group vice president, and ultimately put him in charge of restaurant and franchising operations. Art was an experienced administrator, and he set about building an organizational structure to take over these responsibilities. Pillsbury management was pleased, but it seemed to me that some of the spark went out of the organization when this change was made. Some of it

started with me. Stepping away from the daily business activity resulted in my losing some of the intense enthusiasm that I had always felt in the past.

I attributed much of our past success to the role I had always played as a motivator of people. In addition to my principal duties, I felt I was responsible for creating dreams, building aspirations, and promising victories. Twenty-five years later, when I was serving as president of Fairchild Tropical Garden, I suggested to the managing director that our news publication publish a column headed, "Dreams and Aspirations." We had never had a fundraising campaign before, but within a few years we had raised over ten million dollars. Everyone was excited because people like to be on a winning team. A leader sitting behind a desk shuffling papers is in a pretty difficult position to motivate people and get them to feel that they are playing a role in building the business.

A move was underway to replace what originally had been a highly centralized business structure. Such a change would make it easier for Pillsbury to absorb the Burger King organization into their administrative structure. This was probably part of their original intention. As it turned out, Burger King management became less and less involved in the real decision-making process. One of its many downsides was the inefficiency it would create.

In July of 1969, Pillsbury's CEO flew to Saratoga, Wyoming, where I was spending a two-week vacation with the family. He wanted to discuss succession planning at Pillsbury. Arriving in the company's Sabreliner jet, and after checking into his room at the Old Baldy Club, he got right down to business. He asked me if I would be interested in becoming the next chief executive officer of the Pillsbury Company. The question took me by surprise, but I didn't need much time to think about it.

I told him that I didn't view myself as the right candidate for the position. It was a very short conversation. Earlier I had given some thought to the possibility of moving up the Pillsbury corporate ladder, but after experiencing corporate life during the past two years following the merger and living through my current frustrations, I concluded that I was not the logical candidate for the job.

The thought of moving to Minneapolis did not appeal to me as I was so deeply committed to living in Miami. I felt that I would not enjoy or be good at managing a large diversified company. I had no training or experience in that regard. The CEO had sent me a handwritten note months earlier saying that he thought I was one of the finest executives he had ever met, and I believe that he was sincere when he wrote that. I believed strongly that I had been the right person at the right time as far as Burger King was concerned, but I had no other illusions.

At the urging of the United States Department of Commerce in November of 1969, I joined a five-man trade mission to Japan. It struck me that taking this trip was consistent with my backing away from Burger King's day-to-day operations. I looked at this as a "big picture" event, the purpose of which was to determine the feasibility of establishing the Burger King concept in Japan.

While spending two weeks in Japan, I realized there were no American fast-food restaurants in operation at the time, but there was a Kentucky Fried Chicken restaurant under construction at the site of the Osaka World's Fair. This unit was scheduled to open during the spring of 1970. The market looked like an explosive opportunity to me. I met with trade officials and government representatives of all of the major Japanese trading companies and several dozen business organizations.

I looked into the way Japanese business ventures were organized and operated. I visited Osaka, Yokahama, and Kyoto and spent considerable time in Tokyo making contacts and special arrangements with representatives of the various organizations interested in coming to the United States to discuss establishing a joint venture with us. When I returned to the United States, I shared my enthusiasm with Pillsbury management and expressed the belief that establishing a Japanese joint venture was an astonishing opportunity and would be quite easy to handle. The companies I talked to in Japan had both management and locations available.

The top brass in Minneapolis felt that their International Division should be in charge of this project. I thought this notion was simply absurd. They did not know the first thing about the restaurant business. I presented the concept to the head of international operations, who also thought it was a crazy idea. Both of us believed this was a matter for the Burger King organization to handle, but top management did not see it that way. I kept the matter alive by sending Japanese delegations to Minneapolis after they visited with us in Miami, but nothing ever came of it.

McDonald's viewed the opportunity differently. They jumped in feet first by opening their first restaurant in Tokyo's Ginza district on July 20, 1971, nineteen months after my trip to Japan. The fifty-fifty joint venture they established grew to over 1,100 restaurants by 1996. They reported that this was by far their largest and most profitable international restaurant division. It was hugely successful ever since the opening of their first unit.

The failure to capitalize on the Japanese opportunity was frustrating enough, but I continued to be disillusioned with Pillsbury's unwillingness to pursue the huge domestic potential that existed in the United States. This was an extraordinary opportunity simply begging to be exploited. The lack

of support for the Japanese venture was consistent with the overall lack of enthusiasm for the Burger King business in general.

During 1970 and 1971, Pillsbury management developed an increasingly negative attitude toward franchising and real estate development. This was the basic business that had built the company, and it was difficult for me to understand how they felt we could grow the Burger King business without placing a focus on franchising. They were preparing to downsize franchising, and many times at our Burger King board meetings, with our top management team in attendance, I was challenged to support the position that franchising and real estate development were in the company's future long-term best interest. Pillsbury management simply didn't agree that they were. The mounting tension this caused became a problem, widening the gulf that already existed between the Miami and Minneapolis organizations. Our differences on this major policy issue heightened a growing negative attitude, which the Miami management team came to regard as a "them vs. us" working relationship.

This was turning into a real corporate problem. I felt that if we could not resolve this basic strategic issue, we would find ourselves missing out on the biggest corporate opportunity we had in front of us. It was only natural that this subject would be hotly debated in the Burger King boardroom. At one such meeting, with our entire top management group in attendance, I presented plans to revitalize our franchising program. Minneapolis management not only opposed the plans, but openly criticized the policy more strenuously than they had done in the past. The discussion could only be interpreted as nothing short of ordering a change in our corporate direction.

As the meeting was about to break up, and in a state of utter frustration, I suggested the Pillsbury people should take a hand grenade, pull the pin out, and lob it on top of the table before getting on the elevator. The "hand grenade" comment really struck a nerve and was often referred to in trying to resolve our differences. When the big blowup came, it marked the beginning of my exit as the chairman and CEO of Burger King Corporation.

From the standpoint of our long-term strategic objectives, the early 1970s were critical decision years. During the years 1967 and 1968, McDonald's and Burger King were opening about the same number of restaurants. We were restricted by our limited capital and borrowing capacity, and we were stretched pretty thin as far as our management was concerned. We were still able to keep up the pace because McDonald's was cutting back on their growth plans. They appeared to be concerned that the US might be entering a difficult economic period that could adversely affect their business. We were of the opposite view.

As far as the Burger King Corporation was concerned, we were ready and anxious to generate all of the growth we possibly could. This is where we hoped that the Pillsbury parent would come charging in to give us a boost, but the financial support we expected never came. Our management team began asking the question, "Where is the cavalry?"

McDonald's founder, Ray Kroc, appeared to be disenchanted with talk about a cutback and so was his newly appointed CEO. This may have contributed to the resignation of Harry Sonneborn as their president in 1967. Following Sonneborn's departure, the new CEO gave the signal for rapid expansion. McDonald's growth expanded beyond anything they had previously considered in the past or anything we could ever have possibly imagined.

During the 1970s, when Pillsbury was orchestrating a cut back in Burger King's growth, McDonald's was surging ahead at an extraordinarily rapid pace. From their opening of just 105 stores in 1967, and 109 stores in 1968, McDonald's opened 211 stores in 1969, 294 in 1970, 312 in 1971, 368 in 1972, 445 in 1973, and 515 in 1974.

We were eating trail dirt by the end of 1974. At that very critical time back in 1970, we opened 167 stores, most of which were already in the pipeline when we merged with Pillsbury. I was terribly disappointed when we were forced to cut back to 107 stores in 1971 and to just 91 stores in 1972. We had fought the good fight, but by this time it was clear to our management team that we had lost the war. The cavalry had charged, but the guys on the horses were wearing the golden arches!

They were number one, and unless they stumbled and fell from their dominant position, would probably never be successfully challenged. It still bothers me to think what Burger King might have accomplished if we had demonstrated the courage to stay the course.

The emphasis and commitment to franchising was responsible for Burger King becoming one of the world's giant food-service organizations. Our cooperative relationships with franchisees, coupled with their valuable contributions of time, energy, and resources, were the keys to our success. We have been at variance with certain franchisees over a number of issues from time to time, and occasionally we had to address our grievances in court, but that was an inherent risk in the franchising business. We expected to have certain uncooperative and difficult franchisees who turned out to be poor operators, but by far the vast majority of them were dedicated and hard-working people who fully supported the system. They were the real

backbone of our business. To argue that they were not demonstrated a total lack of understanding about the real dynamics of the Burger King business.

The strategic philosophy concerning Burger King expansion came to light in a memorandum I received from top management on October 7, 1971. It was entitled "Financing and Planning Principles and Constraints." The memo outlined the way Pillsbury planned to direct Burger King's growth into the future. The four key points were:

- Earnings alone will dictate how much growth we can finance.
- Whatever real estate we develop will first be used to build company stores.
- Only as a last resort will we consider developing stores for franchisees.
- Only to the degree that we must, will we permit franchisees to develop their own stores.

This statement of policy and strategic direction affirmed my greatest fears. Pillsbury would be pressuring us to open and operate company stores while cutting back on franchising and abandoning real estate development. The realization that this was actually happening was devastating. I put in a call to Minneapolis after reading the memorandum and asked, "What the hell did you fellows buy this company for?" It was a short and very unpleasant conversation.

After this bitter encounter, I knew that I would not be staying long as a member of the Pillsbury management team. I couldn't be the team player I was expected to be if the price was sacrificing the huge global opportunity that Burger King represented. I was looked upon as some kind of maverick, unwilling to buy into the Pillsbury philosophy and method of doing things. I understood that if I disagreed with management on matters involving

corporate strategy, that it wasn't smart to be too vocal about it. I had no one who would listen to me.

In desperation, I took my concern into the Pillsbury boardroom, but that didn't have much of an effect, and it put me in an even more difficult position. This was going over the head of management and that wasn't a very smart move. I was learning a valuable lesson about the role of corporate directors. The lesson was that directors do not interfere with management when they introduce new ideas and strategic directions, because it takes time to prove whether these ideas are good or not.

Directors usually wait an agonizingly long period of time to reach a conclusion about things like that. In Burger King's case, they hadn't reached that point. With management fully in support of what I thought was a terrible strategic mistake, I knew this was the way it was going to be, and that I had better get used to it. Unfortunately, Pillsbury management was not finished tearing the heart out of Burger King's strategy for the future.

After receiving the October 1971 memorandum giving a strong indication of a shift in corporate direction, I received a nine-page, handwritten memorandum from Minneapolis. It was dated January 22, 1972, and marked confidential. This one upset me as much as the October 7 bombshell. It presented a rationale supporting the policy statements in the October memorandum. The assumption and conclusions were extraordinary in their lack of perception about the worth of the Burger King franchising program.

On January 28, 1972, I responded with my own paraphrasing of the comments contained in this confidential memorandum and invited dialogue and discussion on the subject. If these positions prevailed, they would undermine the entire Burger King opportunity. I began to think in terms of

the value of my investment in Pillsbury stock. Anyone with common sense and good judgment could see that Burger King was Pillsbury's major growth and profit opportunity, but here was an affirmation of management's intent to downsize and restrict our growth and momentum.

The memo of January 22 set forth Pillsbury's perception of franchisee attitudes, which they considered were detrimental to our business. In their own words, it was Pillsbury's conclusion that a Burger King franchisee was a person who:

1. is ingenious at shifting losses over to Burger King rather than absorbing them.
2. automatically threatens company with anti-trust suits as a bargaining tool.
3. resists performance of contract duties and demands concessions from Burger King under threat of litigation.
4. only in the beginning is deeply and daily involved in operations of store.
5. after obtaining five stores, is divorced from function of store manager and is then nothing more than a district manager. At ten stores, simply a regional manager.
6. after three or four stores are obtained, the licensee's function as an operator phases out and his interest as an investor becomes paramount (such licensees are only mediocre development prospects).
7. upon receiving additional stores, their declining personal commitment to operations and growth is guaranteed.
8. fits a pattern, or a "franchisee life cycle," going initially from intense personal involvement in stores, to general manager, to being fed up with day-to-day detail.
9. at a certain stage of growth, resists ideas of renovating, enlarging, or upgrading the Burger King store, and is more interested in cash flow than improving sales by reinvestment.

10. by concentrating new licenses in the hands of existing multi-unit licensees, we accelerate the pace toward the end of licensee's life cycle. Repurchase of the license is a normal consequence of its issuance.

The memorandum was a blow to the Burger King management team, which was acutely aware of the benefits franchisees were contributing to the system. We had respect for franchisees. Pillsbury people had very little. Feelings about the memo ran from disbelief to disappointment to anger.

Our Miami group had grown up with the business and had witnessed and relished the explosive growth we were enjoying ever since the 1950s. We had yet to experience a single failure after opening over eight hundred restaurants since 1954, and yet in 1972, we were looking at plans to abandon the aggressive growth strategy that had built the company and brought us so far.

The Minneapolis announcements were really in support of a sharply reduced growth strategy that Pillsbury must have decided upon a few years earlier. We had reached the high point of new store growth in the fiscal year ending in May of 1970, with the opening of 167 units. This was a 34 percent increase over the preceding twelve-month period and indicated our momentum and how active we were in building the company. We had a total of 656 units in operation by the mid-1970s. Our rapid expansion was the direct result of momentum we had brought to Pillsbury when we came aboard a few years earlier.

As 1970 rolled around, on a near riskless basis, we were opening an average of three new restaurants a week. As the new policy took effect, our rate of expansion declined sharply, with new store openings falling far behind our competition as noted in the following table.

	Units Opened	
Year	McDonald's	Burger King
1967	100	70
1968	109	108
1969	211	108
1970	294	167
1971	312	107
1972	368	91

The real test in measuring the success of a business strategy is to look at results. Our performance was dismal. We had stopped nearly dead in the water, while our competition was opening restaurants at an accelerated pace with every intention to nail down the top spot for good.

McDonald's stepped up the pace by 1974, opening an average of ten new restaurants every week during the year. Most of these were operated by franchisees, but the real estate was either owned or controlled by McDonald's. This was their golden egg. McDonald's view of the value of franchising and real estate development was exactly the opposite of Pillsbury's. Their growth strategy was a preemptive strike establishing them as the market leader, a position I doubted they would ever knowingly or willingly give up. I told our management team in Miami that we had lost the race for the top and had best hope that we could hold onto the number two position.

When negotiating the Burger King acquisition in 1966, Pillsbury Chairman and CEO Paul Gerot made it clear to his board that he had no interest in acquiring the Burger King Corporation unless I agreed to stay on and run the company. I was over forty years old at the time and relatively inexperienced in dealing with the complex financial and contractual matters that usually attend mergers of the kind we were discussing. Burger King had played a very important role in my life during the past twenty-two years, and I was anxious to continue my role as president and CEO of the company. I had no intention of retiring. I wanted to stay on and assist in the realization of our dreams and aspirations. I believed that I was the most qualified person to do that. In my discussions with Mr. Gerot while making the merger, I agreed to remain at the helm for the next five years. With that commitment from me, he was prepared to recommend the merger to his board.

I made no commitments to stay active in the business once the five years was up. A lot would depend on the level of support Burger King would receive from Pillsbury, and much more would depend upon my effectiveness as a CEO and a member of the Pillsbury management team. I hoped to be very effective in these roles, and I was particularly anxious to prove to the Pillsbury people that the Burger King acquisition had been a smart and financially rewarding business decision for them.

My five-year contract was up in 1972. At this point I had been in the restaurant business for over twenty-five years. It occurred to me that there might be a little more to life than just growing the business a little bigger and getting a little richer in the process.

When I became a Pillsbury director in 1967, I might have been the largest individual stockholder on the board, but this had no effect on influencing

corporate policy, and it should not have. However, I did feel that, at least to a certain extent, I was representing the nearly 10 percent of Pillsbury shares then held by the former stockholders of the Burger King Corporation. Furthermore, I felt that I had a special responsibility to express my views about Pillsbury's strategic direction, particularly as it related to the Burger King subsidiary, which was something I knew a bit about.

I believe my presence on the Pillsbury board might have been an irritant to some, but it was my obligation and responsibility to study and comment on operating plans and corporate strategic issues. When I agreed or disagreed with management, I considered it my duty to make these feelings known. Criticizing top management put me in a difficult situation when I thought they were wrong. In challenging their thinking in the boardroom, I was risking the loss of friends in important places.

When Pillsbury management began backing off in its support of the Burger King business, they began to recommend that Pillsbury should get into a number of totally unrelated businesses. This struck me as a very ill-conceived strategy. It was clear that we knew very little about any of these acquisition targets, yet management convinced the board to invest in a few of them.

We acquired *Bon Appetit* and *Bon Voyage* magazines. We got into a computer time-sharing business called, Call-A-Computer, as a joint venture partner with a North Carolina based life-insurance company. We acquired a Minnesota-based home-building company named PEMTOM. We got into the gardening business with the acquisition of a nursery, flower, and plant marketing business called Bachman's European Flower Markets. Still later we bought a winery in California called Souverain Cellars. At the time an

annual report noted, “it is the company’s intention to make the Souverain Winery one of Pillsbury’s important businesses.”

Two years later another annual report noted, “our involvement in this business [Souverain] and its disposition were both costly.” We expanded into the poultry business by acquiring J-M Poultry Packing Co., which had a chicken business in Arkansas and Louisiana. These acquisitions brought on one disappointment after another. They were not only extraordinary in their diversity, but with a complete lack of familiarity with any of these different businesses, our strategy was doomed to a dismal failure.

It was difficult to understand how management could develop such enthusiasm for new, unrelated, and unfamiliar businesses while they neglected the one major business they already owned and knew a great deal about. It was my view that we should have stood steadfastly and solidly behind Burger King. Why we distracted our corporate attention and burdened our financial situation with these investments was a mystery to me. It came as no surprise that we suffered serious losses when they were finally divested.

The Pillsbury Company acquired the Green Giant Company in 1979. During my first year as a director of the company in 1968, management presented a proposal for its acquisition. Green Giant was an established but cyclical Minnesota-based company engaged in the marketing of canned and frozen vegetables. Management believed that Green Giant would make a good strategic fit and urged us to approve it. After examining the proposal, I concluded that it was a terrible idea.

Based on the proposition put before the Pillsbury directors, the Green Giant stockholders would wind up with approximately 40 percent of our total shares. Green Giant was in a commodity type of business with limited

long-term growth potential. It was my judgment that this situation could hardly be viewed as anything worthy of our interest. I was particularly opposed to the idea of diluting Pillsbury's interest in Burger King. The proposal didn't make any sense, and I told the chairman that I couldn't support it.

When the recommendation was brought to the board, I spoke out strongly in opposition to it, and I was pleased when it was turned down, although I knew that my opposition had offended management. I had failed to act as a team player, and this was a clear violation of unwritten corporate rules. I may not have been an experienced corporate director at the time, but I couldn't help but know that I had placed myself in a delicate position with management.

After Pillsbury made a number of diverse acquisitions and created a dislocation of corporate resources, a lot of other things started to go wrong. At the same time these things were going on, the stock market was trying to determine what Pillsbury was all about, what we intended to be, and where we were headed. The crazy acquisitions we had made blurred our corporate image as far as the financial community was concerned, and the price of our stock began to decline as a result. This contributed to a drop in employees' morale in Miami, and I doubted that it could have been much different in Minneapolis.

I traded my Burger King stock for Pillsbury stock in 1967 on the basis of its market price of forty-five dollars. After six years it had dropped to a low of $17.25 a share, a loss of more than 60 percent in value. I attributed much of that to bad management and the clumsy way we had dealt with important strategic issues, particularly with regard to Burger King. I was not happy about the price of our stock, which aside from personal financial

disappointment, was a terrible report card on our corporate performance. The investing public had sent Pillsbury a pretty significant message, stating its lack of confidence in our management and a failure to understand our strategic direction. In this very confused environment, investors and stockholders alike were raising serious questions about the future potential of the Pillsbury Company.

Burger King was too big, too profitable, and too promising for Pillsbury management not to wrap their arms around it. Within a few years of the merger, the Pillsbury people in Minneapolis ran Burger King more and more. Their initial commitment to our autonomy was a thing of the past. This was somewhat understandable inasmuch as management had a definite oversight obligation to see that Burger King realized its maximum advantage. The 1,700 miles separating Minneapolis from Miami was a barrier to accomplishing that, and it seemed inevitable that management wanted to remove any restrictions. What followed was that more and more Pillsbury people were assigned to oversee the Burger King situation. Initially, many of our managers—most of whom were at the staff level—were directed to work closely with their counterparts in Minneapolis. This created a larger bureaucracy, which gradually broke down the integrity of the management organization in Miami.

Helping plan the strategic direction of Burger King was a responsibility for Pillsbury, and we expected them to become involved in that process. Unfortunately, we became nothing more than an operating division. Their overlay of corporate management and the growth of a heavy bureaucracy developed into the kind of problem that often occurs when a big company takes over a smaller, leaner, and more entrepreneurially oriented business. Pillsbury imposed a culturally different management structure on a company that didn't understand what was happening to them.

This often happened in similar acquisitions, usually with disappointing and unsatisfactory results. I expected that Pillsbury would gradually absorb Burger King and force it into their corporate mold, but I hoped that the process would be orderly. It was in everyone's interest for Burger King to fit comfortably into the Pillsbury organization even though management styles and corporate cultures were quite different. I didn't anticipate that in accomplishing such a transition, the strategic direction of Burger King would get so seriously rearranged.

My departure as CEO of Burger King took place in May of 1972, at the end of my five-year commitment. When exiting this role, I was disappointed that I had failed to keep Burger King on track. Although this may have been due to the ill-advised strategies imposed from above, the fact was that by 1972 we were becoming a second-rate player in a burgeoning food-service marketplace. This is what really bothered me. Burger King's earnings were steadily on the increase. This was not the problem.

The most important thing on my mind was the hope that Burger King would continue to prosper and grow and somehow return to its roots, which were always based on franchising and real estate development. Much would depend upon Burger King's future leadership and the corporate direction it would take in the years to come. We were not headed in that direction in 1972, but I hoped that would change. I would no longer be involved in that process except for the fact that I would remain as a director of the Pillsbury Company and continue my involvement with the Burger King Corporation as chairman of its board of directors. The chairmanship title would be purely honorary.

My departure coincided with the selection of a new management team at Pillsbury. There was never any talk of hiring an outsider. Bill Spoor was

named chairman and CEO and assumed the additional title and responsibilities of president a few years later.

Fortunately, the new management team recognized almost immediately that Burger King should be designated as Pillsbury's growth vehicle for the foreseeable future. It began to receive strong support and resumed a more active franchising and real estate development posture. The 1973 Pillsbury report announced that Burger King planned to open two hundred restaurants in fiscal year 1973, and the 1974 report disclosed that the opening of an additional 223 restaurants would increase our total number to 1,199 units. This was an impressive rebound from the mandated cutbacks of previous years.

McDonald's opened 960 new restaurants in that same two-year period, which was over twice as many as Burger King, but at least we were returning to our original mission. Our main competitor was pulling out in front of us with such speed and determination that it appeared unlikely that we could ever catch up, but I was pleased to see that we were finally getting back into the fray.

I was disappointed about Pillsbury's lackluster support for Burger King during the years following our merger, but I tried to take these setbacks in stride. I felt that the basic concept of the Burger King system was so right and so strong that it would take a pretty inept management group not to recognize and capitalize on its huge potential. I was pleased to see a new leader come in and take charge of a situation needing to be jolted back to reality.

Bill Spoor also helped put the Pillsbury Company back on track when he orchestrated the divestiture of the many ill-conceived non-food-related acquisitions that Pillsbury had made between 1967 and 1972. As far as I was

concerned, with a sharper corporate focus, the future outlook for Pillsbury and Burger King began to look much brighter.

Jim Supports Education

I was eight years old when my brother took me to my first Burger King restaurant in downtown Miami. My family had fled Cuba, and that was the first time I ever ate a Whopper or a hamburger; I was completely blown away by the flavor and the size of it! I remember telling my brother, "When I grow up, I am going to own this restaurant."

Eight more years passed, and my brother informed me that a Burger King was being built in our neighborhood, and that I should go and apply for a job so I could get some experience before I bought the place. I got hired on April 1, 1970, and it put me on a course to help me achieve the American Dream.

In the spring of 1972, I was working at store twenty-six when I met Mr. McLamore for the first time with our district manager, Ramon Moral. I was introduced by my general manager, Jim Winstead, who told Mr. McLamore that I was a great employee, but that I would be leaving at the end of the summer to attend college and work at my father's marina. Jim made a comment that it could be possible to work at Burger King *and* go to college. I did not think much about the comment and went back to work.

Nearly a month later, Jim Winstead called me to his office and handed me an envelope from Mr. McLamore. The letter let me know that if I decided to stay, I would be promoted to assistant manager, and this would allow me to receive an excellent benefit package from our parent company, the Pillsbury Company, as well as making me eligible to enter into the Pillsbury Tuition Assistance Program. It said that I would receive 100 percent tuition reimbursement plus cost of all books as long as I was an employee of Burger King.

I remember asking Jim Winstead, "What's the catch?" He said, "None, as long as you work here." He also told me that as a manager I would be eligible for other great benefits like health insurance, a manager bonus, the Employee Stock-Purchase Program, and the pension plan. This opportunity helped me go to college, and I stayed with Burger King my whole career.

My education came full circle in 1996, when I was asked by the president of Burger King, Paul Clayton, if I would be interested in attending an inaugural class to celebrate the opening of the Jim McLamore Executive Education Center at the University of Miami. I immediately said yes and agreed to attend!

The following month, I went to Coral Gables, Florida, to attend the grand opening of the Jim McLamore Executive Education Center. It was very exciting and rewarding for me to represent Burger King franchisees at the opening of this great addition to the University of Miami. Jim was ill at the time and was unable to be there, but I and about twenty-five other BK franchisees were there to proudly represent Jim.

While this was a great accomplishment for Jim, we all knew he would not be with us much longer. The center is a tribute to a great man who cared so much about education and the importance of receiving one.

Jim's legacy has always pointed toward the importance of education. He believed very strongly that a good education was the vehicle toward achieving success…as long as you applied yourself and worked hard. Jim admired people who worked to better themselves. And he believed that an education was the place to start.

Today I continue to enjoy the many fortunes that came from that chance meeting with Jim McLamore. I have been a successful BK franchisee for thirty-three years. I will forever be grateful to Jim for the great kindness and opportunity he offered to a seventeen-year-old teenager he had never met before. It forever changed my life for the better. Thanks to Jim, I am truly living the American Dream.

Alex Salguero, Franchisee

Chapter 19

STEPPING DOWN

Jim invested in the Miami Dolphins and watched Don Shula take them to the Super Bowl.

When I retired as the CEO of the Burger King Corporation in May of 1972, I was not sure what to expect as far as my future was concerned. I was very apprehensive. I was not only leaving the familiar and stimulating world of Burger King, but I needed to find something equally challenging to take its place. This wasn't going to be easy. I knew that I was at the end of an active career in the restaurant business that had begun twenty-five years earlier. The big question was how I was going to adjust to a vastly different way of life.

I was forty-six years old, an awfully young age to think about taking it easy. I was in very good health. I certainly had no intention of retiring in the sense of having nothing to do, but I only had a vague idea as to what that might entail. I had decided earlier that I would not go back into the restaurant business. This was because I intended to maintain my affiliation with Burger King. My financial investment was there and so was my loyalty. I was taking my consulting agreement seriously, in the sense that I felt obligated to stay involved at least to the extent that my services might be needed.

My major preoccupation focused on finding the right kind of stimulating challenges. Nancy kept trying to reassure me that I would come across plenty of opportunities of that sort, but I needed to be convinced. The very thought of being inactive and unchallenged was very unsettling. I wasn't exactly sure which direction I would take, but I certainly knew where I had to start.

The first order of business was to move out of the Burger King headquarters building. The last thing our management team needed was to have the cofounder and former CEO of the company sharing office space with them and in a sense be "looking over their shoulders." I rented space in

the original Burger King office building just a few blocks away, which was pretty close to home.

I was proud of the fact that when I left the company in 1972, Burger King was recognized as being one of the largest and most successful restaurant chains in the country. I felt confident that we would continue to grow and keep our leadership position in the dynamic food-service industry. The management team was now under Art Rosewall's direction, and I anticipated that this team, with Pillsbury's support, would maintain its forward momentum. There was a lot riding on that, notably my investment in the Pillsbury Company as well as my pride. I had seen too many big, successful restaurant companies fail not to believe that Burger King itself could be vulnerable to the fickle winds of change in our swift moving marketplace.

During the past eighteen years. Burger King had demanded my full time and attention. I enjoyed the stimulation of being a part of such a dynamic situation, but this was about to change.

I decided to become more involved in activities I was already familiar with. These included community service, philanthropy, investments, education, real estate, golf, gardening, reading, the family, traveling, public speaking, trade association work, and corporate directorships. I wanted to remain actively involved with the business community, particularly in the Miami area, as it was my home and favorite place in the world.

One thing that required a lot of attention was my personal investments. I had been able to increase my net worth substantially during the past five years in spite of the poor performance of my Pillsbury shares, and I was confident that I could do better than that whenever I put my mind to it. I had not given much thought to making many outside business investments

in recent years simply because I was so busily engaged in managing the company. Now I had the time to look into that and do a lot of other things.

I had made a few outside investments before leaving Burger King. One of them was in the Miami Dolphins in 1969. This was a struggling, losing team in the old American Football League. The AFL was an upstart organization trying to compete with the NFL. Professional football was just coming into its own and Miami was proud to have a team representing the city. Joe Robbie was granted a franchise to field an expansion team in 1966. The franchise agreement designated Robbie to be the managing general partner.

Joe didn't have any money to invest in the franchise, and by 1969 he was in a delicate financial condition as a minority investor in a partnership he had put together. He was also having difficulty with a few of his limited partners, who owned 60 percent of the team. Being heavily in debt himself, and unable to come up with any more capital of his own, made this situation very tense. The Dolphins were not much of a draw at the gate, and with all his debts, the franchise was deep in a cash liquidity crisis. Sunday games rarely drew more than 40,000 fans to the Orange Bowl stadium, which could accommodate almost twice that number.

The Dolphin's share of AFL television revenue was only $500,000 a year, which was a mere drop in the bucket compared to the forty million dollars or more that each NFL team earned annually in the 1990s. Robbie, in his frustration, began threatening to move the team to another city as he sought solutions to a difficult financial and partnership situation.

In a meeting at my home attended by Robbie, four friends and I agreed to invest in the Dolphins on the presumption that suitable financing could be arranged to enable us to buy out the current limited partners. At the time I was on the board of the First National Bank of Miami. In these days, chain

banking was not permitted, and the First National was the largest bank in Florida. I told the group that I would take the idea to our president and determine if the bank had any interest in refinancing the proposed new investors. The bank liked the idea and agreed to come up with a financing package we all found acceptable.

As the new limited partners, we guaranteed financing which, among other things, enabled Robbie to increase his share of ownership. With the five of us joining Robbie as part owners, the Dolphins stayed in Miami. We put a great deal of importance on this, sensing the beneficial impact it would have on our city, our community, and the state of Florida.

Within months of making this investment, a series of significant events took place. The first was the merger of the AFL into the NFL. This was followed in rapid succession by Robbie hiring Don Shula to be head coach. Don had recently served as the head coach of the Baltimore Colts. What happened next electrified the world of professional football.

Robbie, as the managing general partner, was the Dolphins' CEO, and he handled the team's business affairs. The investment of the new partners in the Miami Dolphins was completely passive. For me it involved nothing more than attending the home games and occasionally traveling on the team plane to games we played in other cities. This activity was limited to weekends during the fall months but was made very interesting by Don Shula's extraordinary accomplishments in bringing the team to three consecutive Super Bowl contests in 1971, 1972, and 1973.

The Dolphins won their first Super Bowl following the remarkable 1972 season, when they won seventeen consecutive games without suffering a loss. The 14–7 Super Bowl win against the Washington Redskins at the Los Angeles Coliseum brought out a feeling of great community pride that was

unlike anything that had ever happened in Miami before. The Miami Dolphins investment was both a "fun" and profitable one. The limited partners, including myself, sold our interest to Robbie a number of years later, but all of us savored the enjoyment of being an important part of building a remarkably successful sports franchise.

I accepted the chairmanship of the National Restaurant Association's important Government Affairs Committee in 1969. This required me to spend time in Chicago and Washington attending to matters of interest and concern to the food-service industry and brought me in contact with many restaurateurs from all over the country. This certainly sharpened my perspective on changes that were taking place in our rapidly expanding industry.

Long before retiring as CEO, I maintained an active involvement with a number of community boards and other outside interests. When I stepped down as Burger King's CEO, I was at least partially prepared for a change in daily routine.

My entire business career was filled with activity in local, state, and national organizations. During the 1950s it was Junior Achievement, Parent Teacher Associations, Little League sports, the United Way, our church, and the Miami Restaurant Association, which I served as president in 1953. During the 1960s, I served as a director and ultimately president of the Florida Restaurant Association, and helped organize the Royal Palm Tennis Club, which I served as treasurer for many years and later as president. I joined the board of the First National Bank of Miami, served as trustee of the Northfield Mount Hermon School in Massachusetts, director of the Doral-Eastern Golf Tournament, trustee of Fairchild Tropical Garden, director of the National Restaurant Association, and a member of the

Society of University Founders at the University of Miami. I thought it was important to be involved with activities totally unrelated to my business.

As I was coming to grips with rebuilding my life after retirement, I began to understand why so many people who lead hyperactive business careers often die within a few years of retiring. Many of them are simply unable to cope with facing a drastic change in their pattern of daily living. After ending extremely active professional careers, they don't know what to do. My business career was filled with decision-making, heavy traveling schedules, meetings, tough choices, and pressure-related job activities, so I understood what that was all about. I knew that when my action-packed lifestyle was suddenly altered, I would have to fill the void with something else or face certain problems associated with withdrawal and a change of pace. I didn't realize at the time just how much my previous outside activities would contribute to a comfortable transitional experience.

In most major corporations, mandatory retirement usually takes place somewhere between the ages of fifty-five and sixty-five. Unless a person prepares carefully for that day and for that event, the shock of retirement can have a profound effect. Sudden withdrawal can lead to all sorts of psychological disorders ranging from chronic depression to a sense of worthlessness. The trick is to prepare carefully in advance in order to avoid the trap, and this is not always an easy thing to do.

I spent a lot of time thinking about this long before I retired. I was never an unwilling casualty after retirement because I knew how to keep myself busy and stimulated. With a sense of determination, I felt reasonably certain that the transition from Burger King to a totally new life would go smoothly.

Chapter 20

GETTING ADJUSTED

Jim loved gardening and had an amazing one at home.

I was not troubled by the realization that I would be relinquishing the CEO job at Burger King. My retirement discussions with Pillsbury had been cordial, open, and very professional. I would miss it, of course, but the position had long ago ceased to be the job of a chief executive officer. That function had been taken over by the Pillsbury executive office. Burger King, as an operating division, was reporting to management in the same way their other operating divisions reported, and I was not prepared to do that for an extended term.

When I settled into my new office, I received many calls asking me to take on various responsibilities. There were so many offers and invitations that I had to back away and think about how much time I could afford to give to these proposals. I decided to take my time with all of them. I needed to sort out my priorities and decide which of these were the most important to me. There were matters involving community service, investment opportunities, philanthropy, hobbies, family affairs, learning experiences, service on corporate boards, and a wide variety of other pursuits. I needed to evaluate all of these before jumping in.

Hobbies came quickly to mind. I loved gardening, and South Florida was a perfect place to enjoy that hobby. I recall when I was still active in Burger King and preparing to leave the O'Hare Inn and take the bus to the airport for the trip home. It was snowing hard outside and I was thinking about the garden projects I wanted to take on during the next day in sunny Miami.

Gardening has always been a consuming passion of mine. Many businesspeople become so highly focused on their careers that they do not take time to interest themselves in something different. Failure to recognize this can extract a heavy price, and in certain cases it can be life threatening. Boredom and a lack of purpose can do a considerable amount of

psychological and physical damage. I felt fortunate not to fall into this category.

Three months before stepping down, I bought the property adjoining our home in Miami. The property consisted of a house and a lovely rolling piece of land with many oak trees, all situated on the same lake fronting our own residence. This property added an additional 1.5 acres of land to our own and gave us a total of five hundred feet of lake frontage. The land itself had many promising features I felt could be turned into interesting additions to my garden. Ever since building our own home, I spent a considerable amount of time and effort creating a lovely garden, and the thought of adding on to this project filled me with stimulating thoughts and ideas.

For a gardening enthusiast, Miami's extraordinary, mild, subtropical climate presents the opportunity to work with plants twelve months out of the year. The unique environment had much to do in initially attracting me to Miami. I planned to start on this project while I was attempting to sort out all of my priorities and options following retirement. By taking possession of the property in April, I was in a position to tackle something that absorbed much of my time, energy, and attention. I saw this as a therapeutic release from any inner tensions and a way to process the radical shifts in my professional career.

When my retirement date rolled around a month later, the CBS affiliate in Miami, WTVJ-TV, came to our home and did a television special about my departure from Burger King. The producer selected the newly acquired property as the site for an interview, featuring me dressed in my gardening clothes. I spoke of the fun and excitement I had experienced over the years and mentioned that I had yet to decide what I wanted to do. I said that I expected to remain close to South Florida and continue to stay involved with

worthwhile projects, whether they were local or national in scope. I called particular attention to my gardening hobby and the enthusiasm I felt for the new project.

When flying home after long business trips, I typically read books on tropical horticulture, garden design, or related subjects. Books of this kind provided me with a diversion from busy airports and monotonous flights in cramped seating. My Saturdays and Sundays at home were often spent in the yard, creating planter beds, waterfalls, sprinkler systems, outdoor lighting, or tending to the plants themselves. Having another acre and a half of land offered assurances that I could avoid boredom. There was a little wishful thinking in all this, but at least for the time being I had something that could help keep me occupied.

My concern about keeping involved and stimulated reminded me that I needed to take stock of my personal situation. I also intended to stay actively involved as a director of the First National Bank of Miami, the Pillsbury Company, and the Burger King Corporation and planned to join a few more corporate boards. I was traveling extensively in connection with my duties as the upcoming president of the National Restaurant Association. I was deeply involved as a trustee of the Northfield Mount Hermon School, and I was active in the Young Presidents Organization. The YPO meetings were very well structured and organized to include highly regarded experts in all fields of activity. They were interesting and educational and were usually held in unique and fascinating locations. This gave Nancy and me a chance to travel and visit new places, something we had not been able to do when I was so active with Burger King.

Additionally, my long-standing contact with the South Florida business community and many of its leaders had me on track to begin a term as the

vice president of the Greater Miami Chamber of Commerce. I looked forward to deep involvement in this diverse organization.

Nancy and I had purchased a residential lot at the Old Baldy Club in Saratoga, Wyoming, with the intention of building a summer residence there. A few months after retirement, we hired an architect to design the home based on a plan Nancy developed. This was a fun project for Nancy, who loved to design and plan these types of projects. I kept reasonably busy, but I remained on the lookout for additional activities that could be challenging and worthwhile.

Fortunately, multiple offers weren't long in coming. A few months after retirement, I received a call asking if I would consider standing for election as a trustee of the University of Miami. This was something that I was very pleased to accept. I felt the university was one of the truly outstanding institutions deserving community support, and I wanted to be involved in the process. On the heels of the call from the university, I was asked to become a director of the Community Television Foundation operating WPBT Channel 2, our public television station in Miami. This was followed by a call from Fairchild Tropical Garden asking me to become a trustee. Without hesitation, I accepted all three assignments and willingly assumed all of the responsibilities that went along with them.

While on vacation in Utah, I received a call from the chairman of Southeast Banks, Hood Bassett, telling me that he was representing an organization of banking executives in the Southeast. This organization was offering me the candidacy to serve as one of the seven governors of the Federal Reserve Board in Washington. The thought of spending so much time in Washington influenced my decision to decline the nomination. I simply did not like the idea of living anywhere outside of Miami.

A number of friends tried to interest me in running for the United States Senate, but I had no interest in politics and never gave that any serious consideration. I did become a member of the Orange Bowl Committee and agreed to serve as the chairman of the upcoming United Way Campaign in Greater Miami. With these various activities to attend to, including some foreign travel and the enjoyment of my investment in the Miami Dolphins, the world of retirement became extraordinarily busy, just as Nancy predicted it would. There was much more to come.

My work with The University of Miami and Channel 2 Public Television (WPBT) became a much bigger commitment than anticipated, but the real pressure on my time came from the National Restaurant Association. As the incoming vice president, and chairman of the Government Affairs Committee, I was spending much more time on them than I had originally planned. I expected that my first year as president in 1974–75 would be quite busy. I had anticipated that it would be another year before the pace of that activity would quicken. It was at this point that Henry Bolling, my good friend and then current president, asked me to take over many of his duties for medical reasons. I agreed to do this, which meant that during the next two years, I traveled extensively on association business.

I was pleased to accept this new responsibility because it put me in front of various audiences all over the country related to the food-service industry. This afforded me new learning experiences and the opportunity to keep informed about new developments taking place in a growing industry that had become such an important part of my life. My travel schedule during the next few years was heavy and a bit tiring, but it was just what I needed when I was sorting out my options and trying to figure out what I wanted to do next.

After my election to the board of trustees at the University of Miami in 1973, I accepted all the leadership positions I was asked to assume, and moved rather quickly in assuming major committee responsibilities. After serving as the chairman of the finance committee and later the executive committee, I was elected chairman of the board of trustees in 1980, a position I was to hold for the next ten years, culminating in my election as chairman emeritus after raising the third largest philanthropic effort in American history to that time. This activity almost became a full-time job.

While I was chairman of the board of directors of WPBT Channel 2, I suggested that we offer a business news program. At the time we were unable to compete with the major networks' evening news programs. Our president, George Dooley, liked the idea, and in 1979 we began presenting a fifteen-minute program we called, *The Nightly Business Report*, which became one of the most popular shows on public television. The program began to be broadcast worldwide every weekday evening from our studios in Miami.

I believe I accomplished a great deal prior to stepping down as chairman of the board of directors in 1979. Conceiving the idea of *The Nightly Business Report* was one of them. During the 1970s, I went on the boards of the Storer Broadcasting Company, Ryder System, and Southeast Banking Corporation. These three highly respected Miami-based companies had previously earned national distinction as leading companies in their respective fields. I joined the board of a small, independent oil and gas company in Midland, Texas, and served as a director of Arvida Corporation for a very brief period of time when this leading community real estate developer was undergoing extensive corporate repositioning. With my service on these seven corporate boards, and the attention I was now giving

to the various other investments I had made, I was able to keep in touch with the fascinating world of business.

My investment decisions ran the full gamut from good to bad. The oil business did rather poorly, and I lost some money putting some beef cattle on feed in a Denver feedlot. I also learned to examine the character, reputation, and experience of the people I was dealing with. What was particularly gratifying to me during these years immediately following retirement was the fact that I was no longer under the kind of pressure and stress I experienced from the corporate world I had just left.

My cup was beginning to fill up, and it would soon reach the point of running over.

Chapter 21

BURGER KING GROWS 1972–1988

Hotel and restaurant greats from 1979 (left to right): Patrick O'Malley (Canteen Corp.), Barron Hilton (Hilton Hotels), J. Willard Marriott (Marriott Corp.), Col. Harland Sanders (Kentucky Fried Chicken), Jim McLamore (Burger King), and Kemmons Wilson (Holiday Inns)

As the country entered the 1960s, the American lifestyle began to take on an entirely new character and focus. The rapidly increasing demand to eat out more often was a phenomenon attributed to a number of economic factors and social changes. During the latter part of the 1940s, family income began to increase as more women and teenagers entered the workforce. Returning servicemen from World War II and the Korean War married and began raising families, leading to the development of a phenomenon that became known as the "baby boom." This in turn triggered an exodus from urban centers and a rush into the growing areas of suburbia, which brought about large-scale construction of new homes, developments of shopping centers, and construction of highways.

There was a high consumer demand for all sorts of material goods and automobiles. Though television was still in its infancy, it began to have a profound effect on American lifestyles. Dave and I jumped on the opportunity when we first sensed the importance of this situation. As early industry pioneers ourselves, we had an important head start as far as our size and experience was concerned, and we were determined to capitalize on this advantage.

During the 1950s, restaurants such as Burger King found that franchisees of multi-unit restaurant chains could join together to advertise their business to create consumer awareness and demand. By the late 1960s, Burger King had established itself as an advertiser big enough to use local, regional, and even national network television. This was possible because our franchisees were required by contract to pay 4 percent of their sales to support our joint advertising and marketing programs. This factor contributed significantly to our ability to grow the business during the seventies, eighties, and into the nineties.

Burger King had shown the television market what a Whopper looked like and how it was made by the early 1970s. By that time, the American public knew what Burger King was about. With our restaurants proudly displaying the sign "Home of the Whopper," our two brands became fixed in the minds of millions of people who came to regard our restaurants as good places to eat. We conveyed the simple message that at Burger King our customers would receive good food, excellent value, and quick service. Our selling proposition was that the Whopper was the very best hamburger in the country, and we hammered that message home with the terrific impact we could only get by using television. Our idea of the great American meal was a Whopper, fries, and a Coke, and we sold that idea. We believed this was the right message, offering the right combination at the right moment in time.

Our competition wasn't exactly standing idly by watching us do this. McDonald's was busy doing pretty much the same thing we were, but they had also targeted the children's market very early, nailing it down with effective marketing strategies which included the innovative use of a clown they named Ronald McDonald. Other chains began to use television advertising as soon as they could afford it. Led by Burger King and other thriving chains, the fast-food industry grew rapidly by targeting consumers who were eager to be served. As these modern-day restaurant chains prospered, the restaurant industry became one of the country's largest television advertisers.

Restaurant chains were driven to expand as rapidly as possible in order to gain the added effectiveness of television advertising. In our case, we were determined early in the 1960s to become national in stature because we could tap the added cost efficiency of using network television. This was the best buy in terms of our cost-per-viewer impression. During the seventies

and eighties, network television advertising not only served to build restaurant sales for the few companies who were large enough and able to afford it, but it helped to expand the entire food-service market by creating awareness and an accompanying consumer demand for restaurant services and eating out. Advertising like this focused interest and attention on owning restaurant franchises. The result was that the food-service industry enjoyed a long period of extraordinary growth.

As the 1970s began, the industry found itself in a unique position. Chain restaurants were virtually unknown and unnoticed during most of the early 1960s, and so was restaurant advertising. By the 1970s, franchised restaurant sales achieved levels previously considered as being out of reach. This growth, and the accompanying increase in advertising expenditures, began to build a strong consumer demand for restaurant services. With this kind of activity in the marketplace, a lot of smart people who had studied the industry's growth potential were poised to jump in and take over if the leaders demonstrated an inability or unwillingness to take the initiative themselves.

McDonald's effectiveness in dealing with this situation is attested to by the fact that, by the early 1990s, they were able to report earnings before tax in excess of $1.5 billion and boasted of having 12,418 restaurants in operation at the end of 1992. At the same time, Burger King reported operating profits of approximately $250 million with 6,648 restaurants in operation. We had been able to stay in the number two position, but we paled in comparison to the industry leader. The period from 1972 to 1988 was an important one for the expansion of Burger King, but for McDonald's it was nothing short of spectacular.

Arthur Rosewall directed the company during the five years immediately following my departure, but declining health forced him to withdraw from active management in 1977. In February of that year, Don Smith was brought in to serve as president and CEO of Burger King. A former McDonald's senior officer, Smith remained at the helm until May of 1980, when conflicts with Minneapolis headquarters resulted in his withdrawal. During his three-year service with the company, Smith introduced and insisted on higher standards of restaurant operations than had previously been in effect, while giving support to a number of excellent marketing programs produced under the direction of the chief marketing officer at the time, Chris Schoenleb.

Following Don Smith's departure, Lou Neeb took over as chairman and CEO, having previously served as president of Steak and Ale, a company Pillsbury acquired in 1976. Norman Brinker, the founder of Steak and Ale, was then serving as a director of Pillsbury and was acting as Pillsbury's vice president and CEO of Steak and Ale. When Neeb left Burger King in 1982, Brinker took over as chairman and CEO of both Steak and Ale and Burger King. He elevated Jeff Campbell to the position of chairman and CEO of Burger King, a position held by Jeff into calendar year 1988. Over many years, Brinker demonstrated extraordinary skills in recognizing trends and building highly successful restaurant concepts. He stepped into a leadership vacuum after Don Smith's departure and stabilized a very difficult situation.

Jeff Campbell had previously worked for Chris Schoenleb in marketing during the early 1970s. As an energetic and creative member of this department, Jeff was involved with implementing the highly successful "Have It Your Way" campaign. He rose rapidly in the ranks, playing an important role in building sales, which by 1975 were running at an average annual rate of $420,000 per restaurant per year.

While serving as a member of the marketing department, Campbell asked for duty as a line officer and served as the Northeast region's vice president, where he was successful. With operating experience under his belt, he returned to Miami in 1981 to take the top job in Burger King's marketing department. By that time our average restaurant sales had grown to $728,000 per year. Within four years they rose to over one million dollars. It was at this point in 1983 that Brinker elevated Jeff to the position of chairman of the board and CEO of the Burger King Corporation, a position he held for the next five years.

One of his first initiatives as chairman was to introduce "Operation Shape Up," a program designed to build on Don Smith's determination to improve restaurant operations. Business responded well as a result of this initiative. Also during the early part of the 1980s, in working with the J. Walter Thompson Advertising Agency, Burger King's marketing programs reached the pinnacle of success by producing solid and well-executed advertising messages, which packed a big wallop. The 1983 Pillsbury annual report proudly announced that: "Burger King commercials became the talk of the country for their candid creativity."

It is important to note the significance of our various marketing strategies over the years. Advertising campaigns are designed to deliver specific messages to the public. In Burger King's case, our need was to tell a story about who and what we were and describe the benefits our customers would enjoy as a result of eating in our restaurants. Creativity was the key to this strategy, and our challenge was to get our message across with as much impact as possible.

One of the initial campaigns launched in the early 1970s was the "Have It Your Way" campaign, which was not only very effective advertising, but it

also put Burger King on a new course. The promise contained in this advertising was that we would give our customers a special, new, and unique service, which they could not get at other fast-food restaurants. We made the point that we would dress our sandwiches exactly according to our customers' wishes. This was a direct strike at McDonald's, whom we believed to be vulnerable because their production and service methods did not enable them to provide this kind of special treatment and handling for their customers. "Make It Special, Make It Burger King," which emphasized the personal treatment and made-to-order good food our customers could expect in our restaurants, followed this very successful campaign.

The marketing savvy and leadership of Campbell and Kyle Craig during the early 1980s resulted in the creation of one successful advertising campaign after another. They were highly focused on the quality of our hamburgers, and these campaigns positioned Burger King in the public's mind as the preferred place to go for hamburgers. The very successful "Aren't You Hungry?" campaign was a blockbuster success built on showing our open-flame broiling, with hamburgers dressed with a mouth-watering array of goodies and condiments. The "Battle of the Burgers" campaign attacked our competition head-on by referring to consumer surveys showing a definite preference for Burger King's Whopper.

These innovative campaigns accounted for more than doubling our average store sales between 1981 and 1987. This extraordinary success was driven by Burger King's insistence and emphasis on excellence in restaurant operation. We focused on delivering the promise our advertising was making. The restaurants had to be well run, or the advertising would count for little. This important fundamental is occasionally overlooked by marketing people who are often more focused on simply producing creative selling messages.

The four very effective marketing strategies introduced prior to 1985 were built on the success generated by one of our earliest campaigns, "It Takes Two Hands to Handle a Whopper." This was created by BBDO during my years as CEO. This campaign sent out a strong message about value, quality, and the uniqueness that people could only find at Burger King. When this was followed by the highly successful "Have It Your Way" campaign, we began to build a strong foundation to establish Burger King as one of the top providers of restaurant services in the United States. Unfortunately, the marketing strategies after 1985 fell short of delivering the same kind of results produced by these earlier campaigns. This was the moment when the world of Burger King started to unravel.

Throughout the early 1980s, Burger King continued to make significant progress in terms of the number of restaurants it opened and the profits it earned. These were good times in an expanding economy, with the food-service market continuing to grow at an impressive rate. As expected, the demand for Burger King franchises picked up along with that. Contributions made to the cooperative advertising fund continued to pour in, and by 1985 we had over $175 million per year available for marketing activities. In that same year, the number of Burger King restaurants in the United States had climbed to 4,225. This gave us an important physical presence which, when coupled with our powerful advertising campaigns, provided us with a significant marketing advantage.

Following his string of successes in Miami, Campbell was asked to move to Minneapolis to head up Pillsbury's restaurant division. In doing so he kept the mantle of chairman and CEO of Burger King. Things, however, started to change after he left Miami. Jerry Ruenheck, who had served as Burger King president and chief operating officer ever since Don Smith's departure in 1980, stepped down in 1985 to become a franchisee. Kyle Craig, who had

been extremely effective as the chief marketing officer following Campbell's move to the chairmanship, left to head up other Pillsbury restaurant operations and was ultimately put in as the CEO of Steak and Ale. Later he left Pillsbury and went on to serve as president of Kentucky Fried Chicken USA. Kyle's loss was keenly felt within the Burger King organization.

After departures by Ruenheck and Craig, followed by Campbell's move to Minneapolis, a period of management instability settled in, resulting in a high turnover in the executive suite. During 1986, three different executives served in the capacity of chief marketing officer, and as incredible as it may seem, for one lengthy period of time no one served in that important capacity. The work of the department was turned over to various members of the marketing staff, who dealt with our challenges on a rather disorganized and completely ad hoc basis.

With the departure of key members of top management, a lot of things began to go downhill. The changes and disruptions in the executive offices and marketing department led to the launching of one disastrous advertising campaign after another. The first of these was the infamous "Herb the Nerd" campaign, followed by a succession of subsequent failures. The "Herb" fiasco was mentioned in *Advertising Age* as being the worst advertising campaign of the year. What followed in rapid succession didn't represent much of an improvement. Even our own marketing research people referred to the period of 1985–87 as the "blurred-image era."

As desperation set in after one ill-conceived campaign followed another, we lost our focus. The public was totally confused about Burger King and our message. To complicate matters, menu prices were steadily increased, and this proved to be a very unwise and flawed strategy, which gradually brought about a steady erosion of customer traffic, and this situation was never

adequately addressed. The loss of focus in our advertising and the steady upward ratcheting of menu prices marked a critical juncture in Burger King's history. The public began to have second thoughts about Burger King being a good place to go for value. If left unchecked, this could seriously damage the company's prospects for the future.

We had built the business by projecting a clear image of who and what we were, and the central message was always centered on value. Value is more than a matter of price alone. It involves aspects of service and ambiance as well, and we were failing on all counts. It would be years before management would fully understand the significance of all this. In the meantime, customer traffic continued its steady decline. Management appeared willing to accept this as long as higher profit margins were maintained. Things were beginning to fall apart, and the prospects for the future looked to be anything but bright.

It was a bad year in 1985 for both Pillsbury and Burger King. One disappointing loss was Win Wallin's decision to leave as vice chairman of the Pillsbury Company. For many years, Win had been responsible for overseeing Pillsbury's restaurant operations, including Burger King. He had been a highly regarded Pillsbury executive respected by both Burger King management and its franchisees. His stature, intelligence, and mature leadership acted as a stabilizing factor in nurturing many important relationships.

In May of 1985, Pillsbury acquired Diversifoods for $390 million in cash. This company consisted of a conglomeration of restaurant operations, including the ailing Godfather's Pizza chain, the Chart House restaurants, and 377 Burger King restaurants located in the Greater Chicago Area, Louisiana, and parts of Virginia.

Chart House, our largest franchisee, acquired Godfather's Pizza during the time when Don Smith was their CEO. It proved to be a very costly mistake. Following this acquisition, the corporate name of Chart House was changed to Diversifoods. The sales and operational problems, which already existed in the Godfather's organization, were responsible for driving down the price of Diversifoods stock to a fraction of its former level. Employees' morale suffered as a result of the serious marketing, sales, and image problems associated with the company. Restaurant operations and the physical appearance of the restaurants suffered as a result. Diversifoods was not in the best of shape when Smith left the CEO position to take on another assignment.

Pillsbury was obligated at that point to acquire Diversifoods in order to preserve the integrity of the Burger King name. The 377 Burger King restaurants were so poorly run in recent years that our reputation was badly damaged in a number of important markets. It was enough of a problem to clean up the Burger King situation, but a bigger challenge was involved in making some sense out of a sick pizza business which we knew nothing about. There was also the problem of managing the Chart House chain of full-service specialty restaurants spread out from coast to coast. I began to regret even more Pillsbury's failure to acquire Chart House on the terms Art Rosewall and I had recommended in the early 1970s. Now they were forced to pay a king's ransom for a sick business that earlier would have cost a fraction of the price.

Adding to our difficulties was the fact that, in 1985, Bill Spoor retired as CEO of Pillsbury. The departures of so many corporate leaders created serious leadership voids. With key positions in many of his divisions to fill, the new Pillsbury CEO, Jack Stafford, faced significant challenges in building

an organization that could manage an extremely diverse and complex number of businesses under rather difficult circumstances.

Pillsbury's fiscal 1986 report covering the 1985 results acknowledged almost apologetically: "After three years of spectacular growth, year to year sales per restaurant increased only slightly." In Burger King's case, comparable restaurant sales, adjusted for menu price increases, had actually dropped below those of the prior year. What was left unsaid was that our customer counts were in a free fall.

Between 1985 and 1988, the revolving door in the executive suite at Burger King seemed to turn faster and faster. These changes in management created a certain amount of disorientation. Long-term strategic planning gave way to dealing with shorter-term tactical issues, operational problems, quick fixes, and just putting out fires. At this critical juncture, Burger King's management made a number of poor decisions destined to have a negative impact on our business.

The first one involved the introduction of untested new products to an already overcrowded menu. This was the first of several ways management hoped to stem the tide of declining sales and customer traffic. The second decision was to continue raising menu prices as a means of increasing profit margins. Management saw this as an opportunity to increase restaurant profitability. Both strategies were grossly flawed from a strategic point of view, and they wound up producing the exact opposite effect of what was intended. The problems created were not recognized for an agonizingly long period of time.

New products were introduced in a never-ending stream without management sensing the damage. Burger King was founded on the simple premise that a limited menu was our key to success. Our expanded menu

confused the public. This created in-store production problems that reduced our speed of service, lowered the overall quality of our product line, and the added confusion made it difficult for employees to fill our customers' orders accurately. This became our number one customer complaint. Additionally, menu price increases brought on a steady erosion of the customer base. It became glaringly apparent that we were pricing ourselves out of the market.

Throughout 1986 and into the 1990s, sales and traffic counts continued to deteriorate, and a series of ill-conceived marketing plans and advertising strategies were not able to stop the bleeding. Advertising expenditures in the 1985–1986 fiscal year exceeded $190 million and grew to $227 million by 1988. None of this heavy spending was able to stop the steady decline in sales and customer traffic. By the fall of 1988, with franchisees deeply disturbed and in near revolt, Grand Metropolitan entered the scene, and the battle for control of Pillsbury and Burger King only aggravated the situation. Change was in the wind, but a question remained as to the kind of effect this change would have on Burger King, its franchisees, and the future.

Years later, Burger King was forced to admit that during a period of eight years from 1986 to 1993, we lost an average of 34 percent of our previous customer traffic per restaurant. The two questions demanding answers were: How did we get into this mess? And how were we going to get out of it?

Chapter 22

HOSTILITIES FROM LONDON

Jim behind the counter of Burger King

Ryder System's board of directors, of which I was a member, held a three-day meeting in Williamsburg, Virginia, beginning on Monday, October 3, 1988. A few of the directors had arrived and were seated at one of the tables of the breakfast room. As I entered the room, I received some startling news. Herman Schmidt, a retired vice president and general counsel of Mobil Oil Corporation, shot the question, "Jim, did you see the CNN story on Pillsbury this morning?"

He went on to say that the morning edition of the *New York Times* had run a full-page advertisement announcing a cash tender offer by Grand Metropolitan plc of Great Britain to buy all Pillsbury shares at sixty dollars per share. To say I was shocked was putting it mildly. I thought that Pillsbury might be vulnerable to a takeover threat, but this was startling news. Our stock closed on the New York Stock Exchange the night before at thirty-eight dollars per share, so we were looking at an offer to buy the company for a 60 percent premium over the last trade.

This unsolicited, hostile takeover bid was as preemptive as it was extraordinary. Grand Met was obviously serious about acquiring Pillsbury and had laid a top dollar offer on the table. The offer appeared high enough to discourage other would-be suitors or white knights from entering a bidding war, and it looked as though it was calculated to counter any defensive tactics that Pillsbury might put up in an effort to remain independent. Pillsbury needed to respond right away, so I expected to receive a call very soon from our Minneapolis headquarters.

There was a good reason to think that Pillsbury might be a target for a takeover. To begin with, the company had been the subject of a lot of negative press during the preceding two or three years. Much of it involved management turnover and changes that had taken place in the executive

offices of the company. Bill Spoor had served as chairman and CEO for thirteen years, from 1973 until 1986. He was strongly supportive of John Stafford and recommended to the board that he succeed him as CEO.

Stafford came to Pillsbury with an excellent reputation and background, having served as the chief marketing officer of the Green Giant organization. After Pillsbury acquired Green Giant in February of 1979, Jack had made many significant contributions to the company in key leadership roles. He rose rapidly in the organization. The board elected him president of the Pillsbury Company in 1984, and he and Spoor worked together in harmony. In 1986, Spoor reached retirement age, and on his recommendation, the Pillsbury board elected Stafford to the post of chairman, president, and CEO. Unfortunately, Stafford soon encountered a number of operational disappointments in the exercise of his managerial responsibilities.

He had inherited a business that had a number of problems. The Steak and Ale restaurant subsidiary headquartered in Dallas had overexpanded, and it was operating outside of their management's sphere of control. Sales and profits had declined from former levels, and the company was faced with closing a number of their restaurants.

The profitable Bennigan's Tavern concept was also showing some of the same kind of trouble with weak controls. Management was stretched pretty thin and had become increasingly ineffective. These problems began to show up on the bottom line about the same time as the Burger King situation started to unravel.

Leading up to 1986, Burger King's management was under pressure to increase profitability. During the period of 1980–1984, menu prices had held very steady and profitability had increased noticeably. With its highly successful marketing programs, sales and customer counts increased

steadily during this four-year period. Unfortunately, costs were also rising. Recently, restaurant profitability had increased dramatically, but management seemed to be preoccupied with the possibility that future profitability might come under pressure. Their solution to the problem would be a simple one, and the word went out to raise prices.

Beginning in 1986, Burger King's comparable store sales began to decline, and customer traffic fell off. Raising menu prices was exactly the wrong course of action, and it came at the wrong time. By 1988, customer counts were in a free fall. Alarm bells were ringing, but nobody seemed to be listening. Marketing strategies were so poorly conceived and awkward that the company became the subject of negative reporting and ridicule in the food-service and advertising trade press. Even the national media was giving Burger King a bad time, citing in particular the infamous "Herb the Nerd" advertising campaign that had been such a colossal bust.

Stafford had the misfortune to preside over Burger King's change of advertising agency from J. Walter Thompson to N.W. Ayer. Hot on the heels of the "Herb" disaster, Ayer brought out another questionable and ineffective campaign called "We Do It Like You'd Do It." Spending on the various campaigns and the costs related to them ran into the hundreds of millions of dollars, and still Burger King was facing a steady decline in traffic and sales. Mixed in with these high profile disappointments were mini campaigns like "Burger King Town," "Good Food for Fast Times," "Bigger and Better," and "Torch (Broiling Is Better)."

At the time I was not particularly well informed about all that was going on inside the Pillsbury operating divisions, but there was plenty of evidence of trouble there. The declining market share of both our consumer product sales and restaurant divisions was evidence that Pillsbury was having trouble

on a number of different fronts. Stafford was in trouble because of these disappointing results, and the Pillsbury board didn't like the numbers they were looking at.

To make matters worse, Bill Spoor's interest in trying to help solve the problem was interpreted by the press and others to mean that he was interested in returning to the CEO job in order to lead Pillsbury out of the dilemma. This was not a fair interpretation of the situation, but the perception of it fueled speculation that there was dissension in the managerial ranks. It also focused attention on Pillsbury's sales, marketing and profit woes, and problems with Burger King and its franchisees.

The Pillsbury directors faced the management issue at a board meeting in Naples, Florida, in March 1988. Stafford, with considerable grace and dignity, tendered his resignation, and the board elected Bill Spoor to succeed him. Bill was asked to serve as interim CEO until a replacement could be found. The press gave considerable coverage to this event, and Pillsbury took a pretty sound beating in the financial press.

Fortune magazine wrote a story about "The Management Caldron at Pillsbury." All of which focused on the notion that Pillsbury was in trouble, and that in order to deal with the problem the company had reinstated a tough-minded CEO who would take vigorous and unpopular actions as a means of restoring the company to the levels of profitability and market positions it enjoyed in the past. Press relations reached a low ebb and almost ensured that there would be caustic reviews to document the company's plight. All of this was on my mind when the news of Grand Metropolitan's sixty-dollar-a-share tender offer was announced on October 4, 1988.

There had been rumors circulating about the possibility of Pillsbury becoming a takeover target. What attracted Grand Metropolitan? Certainly

the company's visibly weakened market position in key business areas, coupled with its own management problems, made the idea of a corporate raid or takeover at least seem possible.

At this particular time in history, corporate takeovers were the most talked about subject in the business world and in the financial press. The country was awash in cash thanks to junk bond financing. Cash was readily available to corporate raiders or other parties who were actively engaged in funding corporate takeovers. Michael Milken and his associates at the investment-banking firm of Drexel, Burnham, and Lambert dominated the field of junk bond financing and were deeply involved in this controversial activity. Junk bond financing brought about some of the largest corporate takeovers in the history of the country. It was the use of such huge amounts of debt financing that was largely responsible for the collapse of many financial institutions, most notably in the insurance, commercial banking, and the savings and loan industries. Many financial institutions were scalded for engaging in this kind of practice.

In February 1988, I received a call from Donald Smith, who was Burger King's president and CEO from January 1977 to May 1980. Don presided over several of the most prosperous years of sales and profit improvement in Burger King's history. He was highly regarded by franchisees, who thought of him as a fundamentally sound, operationally oriented, and effective executive. After a long career with McDonald's serving as one of their top executives, he was recruited by Pillsbury to become Burger King's president and CEO.

Don had done much to improve their business. The franchisees developed a healthy respect for Smith because they shared a common interest rooted in the importance of maintaining the highest standards of restaurant

operations. Smith reinforced the rules, and franchisees understood that he wouldn't tolerate any departure from prescribed operating procedures. They liked Smith's decisiveness, and they appreciated the fact that he was a team builder who had exceptional leadership skills. There was never a question about who was in charge when Smith was sitting in the president's chair.

The problem was that Smith, being as strong as he was, was dealing with equally strong and tough-minded leadership in Minneapolis. It was not long before confrontational differences of opinion arose regarding strategic issues and differences in management styles.

Smith wanted more freedom to run Burger King and to be more involved in determining the strategic direction of the company, but he found himself in the position of having to take too many matters before the Pillsbury management group and the board for approval. As frustration set in and more conflicts arose, personalities began to clash. This heightened more of the "us-vs.-them" attitude that had prevailed since the merger took place in 1967. Miami executives seemed to feel that they were in the position of coming to Minneapolis in beggar's clothes, with outstretched hands asking for favors. They felt left out of the strategic planning process. It was their view that tactical approaches to problem solving and most operational issues were decided upon long before they got to town.

Problems like these are not particularly unusual in parent-subsidiary relationships. Pillsbury and Burger King were two very different companies, each having unique corporate styles and philosophies. These differences often lead to personal conflicts, making it difficult to maintain smooth working relationships. By the time Grand Met entered the picture, this situation had existed throughout most of the twenty-one-year history between the two companies. Smith's frustration ultimately led to his

departure. In 1980, PepsiCo asked him to take over their Taco Bell and Pizza Hut subsidiaries. Smith seemed pleased to get out, and there was reason to believe that management in Minneapolis were pleased to see him go.

After a short tenure at PepsiCo, Smith left to take over food-service operations at Hershey Foods, who owned the Friendly's Ice Cream Corporation, a restaurant company with over six hundred operations in sixteen states, mostly in the Northeast. Later on, he went on to the Holiday Inn board, acquired by the Perkins Family Restaurant company, a restaurant chain located principally in the Midwest. Perkins had been a lackluster performer in recent years, and this presented Holiday Inn with a problem they didn't need because they had plenty of other problems of their own. The directors decided to restructure Holiday Inn and unload Perkins. This resulted in a leveraged buyout wherein Smith gained a significant interest in the Perkins chain based on his agreement to take over its management and restore the company to acceptable levels of profitability.

The Bass Brothers and key manager Richard Rainwater of Ft. Worth were the principal architects of the deal and became the principal partners in the leveraged buyout. Within a few years Smith turned Perkins around and produced a success for the company and its investors. In the process, he created a personal fortune for himself and obviously impressed the Bass Brothers' organization. Smith called me in February of 1988 and asked if he might come by the house and bring along a friend he wanted me to meet. The meeting took place the next day, with the three of us seated around our pool. His friend was a financial dealmaker and a former associate of the Bass Brothers. The purpose of their visit became evident after Don explained his deal with Holiday Inn and Perkins. They wanted to discuss the possibility of acquiring the Burger King Corporation from the Pillsbury Company.

As a director of the Pillsbury Company, I wanted to avoid any discussion on the subject, and I told them at the outset that I was unwilling to go over it with them. This was something the two of them needed to talk directly to Bill Spoor about. I didn't want to put myself in the middle of this situation. Don may have thought that I was frustrated by the gradually worsening conditions at Burger King and might be willing to act as an intermediary in approaching Pillsbury, but I wanted no part of that.

It was clear that Smith had talked to a few of our franchisees. This was reported in the press at the time; many articles were published about our franchisees' growing dissatisfaction with Pillsbury's stewardship of Burger King. Smith tested the idea of his taking over Burger King in recent talks with key franchisees. I offered to arrange contact with Pillsbury if they wanted to review the matter with management, and I left it on that basis.

The following morning, I advised Pillsbury's general counsel about Smith's visit and offered to review what had taken place during our discussion if management wanted any more information about our meeting, but no one called back to ask any questions. This seemed odd to me in light of the increasing speculation that Pillsbury might be a takeover target in the future. I began to wonder how many others had been looking us over.

At the time Don Smith was attempting to open discussions concerning the possibility of acquiring Burger King, Pillsbury received word that Bill Farley, an investor and takeover specialist in Chicago, was accumulating Pillsbury stock. By the middle of 1988, Farley had bought close to three million shares of Pillsbury at an average cost of thirty-eight dollars a share. Farley had the reputation of being a corporate raider during the past few years because of his aggressive acquisition of shares in a number of other companies. By acting in this fashion, he was holding out a threat that he might try to take

over a company. This tactic often resulted in the company buying back the large block of shares he had bought at a considerable profit to Farley. In financial jargon, the practice was called greenmail.

At one point during the summer months of 1988, with Pillsbury stock dropping three or four dollars a share, Farley was under water by as much as ten million dollars. In addition, he was obligated to pay a very high rate of interest on the money he had borrowed to finance his purchase of stock. Formerly an investment banker and analyst, Farley had an eye for vulnerable corporate situations. It seemed obvious to me that the Pillsbury Company was one of his next takeover targets.

With Farley showing a ten million dollar paper loss, it seemed as though he might have made a serious mistake in taking such a major position in Pillsbury stock. He was willing to borrow huge sums of money to finance his purchases of shares in various companies, but this one looked like he was on shaky ground. There is an interesting sidelight to his venture. Months after the Grand Met takeover of Pillsbury was completed, I was lecturing at a YPO seminar in Buenos Aires and ran into Farley, who was in attendance. I asked him how he finally made out on the Pillsbury stock he had accumulated. He told me that he had made a profit of $77 million. I had to respect his instincts.

Our directors probably knew that Pillsbury was being looked at, but aside from knowing about Farley, they had no idea who was doing the looking. The question was where the first strike might come from and what form it would take. This was not a subject the board was willing to discuss. Grand Metropolitan supplied the startling answer on October 4.

The announcement of Grand Metropolitan's offer on October 4 resulted in the calling of a special meeting of the Pillsbury board a few days later. As far

as Pillsbury stockholders were concerned, the offer was very significant. Shares of Pillsbury stock had increased 60 percent in market value in anticipation that a takeover was imminent. The arbitrageurs had jumped in with both feet. They believed a bidding war might drive up the value of the stock even further. Stockholders would be very attentive to any responses the directors of the company would make.

The first reaction of many stockholders in such a situation is to urge the directors to accept the offer. There are two reasons for this. The first reason is that the price being offered is at such a premium to the market that it is "too good to refuse." The second reason is based on the possibility or threat that the offer could be withdrawn. To stockholders it is often a case of a bird in the hand being worth two in the bush. Grand Met had offered a 60 percent premium over the previous day's market close, a huge increase in the value of the shares they owned. However, stockholders have no authority to act in response to offers to acquire their company. That authority rests solely and entirely with a board of directors who are empowered and obligated to act on behalf of the shareholders.

The Pillsbury board of directors in December of 1987 had adopted a so-called shareholders' rights plan, the short name for which is a poison pill. Essentially this plan enables the board, in the event a takeover of the company is threatened, to issue rights to its shareholders to buy any acquiring company's stock at a price substantially below the market. The effect of this is to make any such acquisition prohibitively expensive to a would-be acquirer. As a practical matter, so long as these rights are in place, the hostile bidder is forced to deal directly with the board of directors and attempt to negotiate a settlement. Without the shareholders' rights plan in place, stockholders might tender their shares at the bid price, enabling the hostile bidder to acquire a majority or all of the shares on their own stated

terms. With a majority of shares in hand, any hostile bidder could affect the desired acquisition in any number of ways. This is an oversimplification of course, but in the Pillsbury-Grand Met case, a shareholders' rights plan was in effect. It forced the two companies to negotiate with each other in the event no other options were available.

One of the board's first responsibilities would be to determine whether or not the sixty-dollar-per-share offer by Grand Met represented the full value of Pillsbury shares. If they concluded that it did not, the board had an obligation to consider a better offer, either from another party or by restructuring the company in such a fashion that would enhance the shareholders' value over and beyond the tender-offer price.

Our attorneys were Skadden, Arps, Slate, Meagher & Flom, one of the better-known firms specializing in corporate takeover matters. They were on retainer and in position to advise Pillsbury on the legal issues involved and to suggest a strategy the directors should follow in discharging their fiduciary responsibilities to shareholders.

In addition, the directors needed to retain financial consultants to counsel them on matters concerning valuations, financial restructuring, and a host of other issues relating to the response they must make. Four major US investment-banking firms were retained: Drexel Burnham Lambert; Wasserstein Perella & Co.; First Boston; and Shearson Lehman Hutton. Kleinwort-Benson, a British investment-banking firm, was also retained. The retainers paid to these investment bankers were sizable. My recollection is that the fees exceeded forty million dollars.

The first action of the Pillsbury board at a meeting held in October was to issue rights to Pillsbury stockholders as prescribed in the shareholders' rights plan, which gave stockholders the option to buy stock of any hostile

acquirer's company at half of the market price. This poison pill played a key role in determining the direction of the battle that would soon take place. Based on studies provided by the investment bankers, the Pillsbury board determined that the sixty-dollars-per-share price was "inadequate," and advised shareholders not to tender their shares. In the bankers' judgment, the value of Pillsbury stock was in the range of sixty to seventy-three dollars per share.

Efforts to locate a white knight (or an investor acquiring a corporation with the support of the company) proved futile, so management attempted to find ways to restructure the company in the hope they could demonstrate to shareholders that the "pieces" resulting from such a restructuring would add up to an amount over and above that which Grand Met was willing to pay. In that case, the Pillsbury Company might be able to remain independent.

The key piece under consideration was Burger King. The restructure involved a plan to dispose of the Burger King Corporation, via a spin-off of the company to Pillsbury stockholders. Part of this plan was to have Burger King, before being spun off, borrow a sizable sum of money—perhaps in excess of a billion dollars. After this was done, it was planned that Burger King would pay a huge cash dividend of a like amount to the Pillsbury Company. Pillsbury would in turn pay out the entire sum in cash dividends to Pillsbury stockholders. This dividend would play an important part of determining the valuation of the pieces of the Pillsbury Company to shareholders. It was planned that, after the spin-off and the payment of the huge dividend, the remaining value of what was left in the Pillsbury Company would add up to a figure in excess of the Grand Met offer. Determining the value of the sum total of these pieces would be the responsibility of the directors. They would arrive at this determination based on the advice and representations made by our four US investment bankers.

The key pawn in building this defensive strategy was the Burger King Corporation. A spin-off would present a serious tax liability in the event any company subsequently acquired Pillsbury. It would probably be so onerous that it would force Grand Met to withdraw its offer. The IRS would view any normal spin-off of Burger King to Pillsbury stockholders as a tax-free transaction, but if Pillsbury were to be acquired later, the IRS would view the Burger King spin-off as a sale. The accounting treatment would be forced to acknowledge that an enormous capital gain had taken place. The resulting capital gains tax would be huge.

To obtain the cash needed to pay such a large dividend to the Pillsbury Company, Burger King would make arrangements to borrow over one billion dollars. If this could be arranged, and the investment bankers thought it could be, this would enable Pillsbury to declare a fifteen-dollar-per-share dividend to their stockholders.

A borrowing and subsequent payout of an amount of this magnitude would not only place the Burger King Corporation in a precariously delicate financial condition, it would render it incapable of providing for its future expansion needs, and it would seriously undermine the company's ability to adequately service its franchisees. Such an action would render Burger King insolvent for all practical purposes.

The final indignity in the investment bankers' plan would result from a subsequent spin-off of the common stock of a mortally weakened Burger King Corporation to Pillsbury stockholders. It was the bankers' opinion that the remaining Burger King "stub" (its shares trading in the open market) would be valued in the range of eleven to twelve dollars a share. It was felt that these two actions plus the "tax pill" created by the spin-off would surely keep a hostile suitor at bay.

The fifteen dollars per Pillsbury share paid out in the form of a cash dividend and the stub of eighty-eight million shares of Burger King stock selling at twelve dollars would mean that the Burger King disposition would add up to a value of twenty-seven dollars per Pillsbury share. This would be a significant factor in helping convince the Delaware court that the whole of Pillsbury was worth more than the sixty dollars a share being offered by Grand Met. Our investment bankers planned that the spin-off would consist of eighty-eight million shares of Burger King stock, and they expressed the belief that these shares would trade on the open market at twelve dollars per share.

Assuming this happened, the market value of a nearly insolvent Burger King Corporation would be in excess of one billion dollars. I found this difficult to believe.

Chapter 23

THE BATTLE FOR A TAKEOVER

Jim meeting President George Bush, Sr.

Reaction in the Burger King franchisee community to news of the spin-off plan was varied. On one hand, there was an almost universal opinion among the franchisees and many members of Burger King management that an independent Burger King company, with its common stock trading in the open market, would be far more desirable from an operating standpoint than if the company remained as a division of the Pillsbury Company. Franchisees were frustrated with Pillsbury's handling of Burger King affairs in recent years, and a sizable majority of them favored a separation.

Franchisees felt that way for a variety of reasons. They didn't approve of Pillsbury's regular practice of selling Burger King company stores and its valuable real estate in order to meet profit goals. To franchisees this evidenced Pillsbury's lack of a long-term commitment to the business. There was also a general feeling among franchisees that the Burger King management crisis could be stabilized. The high turnover in the executive offices at Burger King was a matter of great concern to them. They consistently pointed to the fact that, in the past seventeen years, nine chairmen, ten presidents, and eight chief marketing officers had managed Burger King.

On the other hand, Pillsbury's price for granting independence to Burger King would be ruinous to the financial health of the company. Adding one billion dollars in debt to Burger King Corporation, and turning this huge sum over to the Pillsbury Company so they could pay this out to their stockholders in the form of a huge cash dividend, would seriously undermine Burger King's ability to remain a viable competitor in the marketplace. Franchisees rebelled when they realized what might happen to them. The implications of such a move were downright scary. Since the 1967 merger, there was never a time when more bitterness and resentment

attended the relationship between the franchisee community and the Pillsbury Company.

During the desperate weeks that followed Grand Met's offer, Pillsbury management became immersed in an attempt to devise a restructuring plan the board could support. It was important to be able to show that the "pieces" of Pillsbury added up to a value greater than the sixty dollars per share that Grand Met offered. Burger King, being the key to all this, was thought to be capable of delivering a value of twenty-seven per share. This assumed that the spin-off would actually take place and the market would respond the way the bankers had predicted.

The important question was determining the realistic value of Burger King stock once it had been spun off to Pillsbury stockholders. What value would the investing public put on the shares of Burger King as a grossly overleveraged company? The investment bankers decided to make a judgment about this by projecting Burger King's profitability and financial condition based on management's future operating assumptions regarding sales, expenses, and profits.

When the initial projections by Burger King management were delivered to Pillsbury, they were sent back with instructions to present a set of projections that showed a more optimistic outlook and higher earnings potential. The bankers could not make their case with the first set of numbers they received. At this juncture, Charles Olcott, who was under extreme pressure as Burger King's president and CEO, resigned rather than sign off on figures he could not support. He thought that his initial presentation had plenty of "stretch" in it, and he was unwilling, as he said, "to pump any more air into the numbers."

This was a sad moment in Burger King's history. Olcott later told me that he was instructed to sign off on higher profit projections for a stripped-down Burger King Corporation or he would be asked to resign. As Olcott explained to me, it was a choice of either being a team player and going against his sense of ethics or getting fired. Olcott, a highly principled man, said, "Jim, I just couldn't do it. The initial figures were already full of air. I couldn't blow them up any further. I just said to hell with it and got out."

In the critical meeting of the Pillsbury board in Minneapolis on Sunday, November 6, the discussion centered on the Burger King spin-off idea. Pillsbury management presented Burger King's profit projections based on the latest set of operating assumptions they had put together. The figures were high enough to justify the spin-off concept, and they formed the basis upon which the investment bankers arrived at their opinion that the spun off shares would sell in the market for around twelve dollars per share. The board was hard pressed to challenge that opinion. After all, these highly paid bankers were the experts.

In my capacity as a director of Pillsbury, I couldn't discuss any of these forecasts and assumptions with Burger King management, but instinctively I didn't like them. It was pretty clear to me that there was too much "blue sky" involved. I wished that I could have pinned down some of our management on the specifics in private, but this was not an appropriate thing for me to do. All I could do was direct some pointed questions to the bankers about management's forecasts and conclusions. Did Burger King feel comfortable that, given current market trends, they could deliver these numbers? They said yes to that, and to a number of other challenges I threw out to them, but I felt they were hedging and under pressure to make the numbers fit.

I was well aware that we were into our third straight year of declining restaurant sales and customer counts. I also didn't have any confidence that the company's management had figured out how they were going to reverse that trend. It turned out that I was right about that. Store sales and customer counts continued to decline for the next five years. Although the bankers assured me on the points I had raised, I harbored serious reservations about the whole thing. The directors, including myself, were not in a position to seriously challenge the numbers and the representations supported by Pillsbury's management, so in the final analysis we could do little more than rely on the opinions of our advisors.

The critical moment for the Pillsbury directors came when the Burger King spin-off plan came to a vote. I liked the idea of Burger King becoming an independent company, but the idea of leaving it grossly undercapitalized and nearly insolvent was repugnant to me. Although I did not like the plan, when the matter was presented, I voted for it. It was already evident that every one of our directors was going to support the idea, and I felt that my negative vote would do more harm than good.

At this juncture, there seemed to be every reason for the entire board to appear to be united. Furthermore, my principal obligation was to support a plan that, if successful, would be in the best interest of the Pillsbury stockholders. I seriously questioned that a spun-off Burger King's common stock would be able to command an eleven-to-twelve-dollar value in the marketplace. Still, if I was wrong about that and the bankers were right, this plan might prove to be a good deal for the stockholders. This was my duty and obligation as a director of the Pillsbury Company. I could sympathize with Burger King, but I couldn't act in their behalf.

I thought about other fiduciary responsibilities as well. I had an obligation to consider the best interests of our employees in this matter. Our franchisees would be negatively impacted if such a spin-off occurred. There was no question about that. I had an obligation to look after their interests, too. Our franchising relationship clearly assumed that franchisees had a right to expect that the company's financial integrity would remain intact. Our suppliers, creditors, and employees had these rights as well.

In addition to furthering my mission to find the best deal for Pillsbury stockholders, now, at least in private, I was beginning to hope that Grand Met might provide the best answer in that regard. There was concern on the part of Pillsbury management and the bankers that it might be difficult to market Burger King shares after a spin-off unless our franchisees were in support of the idea. Accordingly, on November 14, Jerry Levin was sent to Miami to meet with employees and franchisees in order to convince them that the numbers were valid and that Burger King, after the spin-off, would remain a viable, dynamic company.

Levin had recently been named chairman and CEO of Burger King following Charlie Olcott's resignation, so it was to be expected that his appointment would be greeted with concern. Franchisee support for the spin-off concept was, at this point, critical to the plan's success, and it would be Levin's responsibility to sell them on the idea. Before taking on that assignment, he needed to convince Burger King management that the deal was a good one.

Much later, after Grand Met acquired the Pillsbury Company, I asked a member of middle management to write a note telling me how our employees felt during the heat of battle about these new and shocking developments. I received the following memorandum:

REFLECTIONS ON THE GRAND MET ACQUISITION

A few weeks ago, the expected happened—550 people were laid off at Pillsbury, and another 550 at Burger King. This was less than two months after the acquisition by Grand Metropolitan, the fourth largest British conglomerate.

It was a downright dirty fight. No doubt about it. The Pillsbury top brass felt that they were fighting the good fight. This was a battle for independence, for the sanctity of the Pillsbury name, its traditions, and the people who fought long and hard to build the hundreds of brand names that comprised the company's portfolio. But, unlike that momentous occasion of July 4, 1776, the Americans lost. What Pillsbury did not count on was that not only its shareholders but its employees would say "enough is enough." The shareholders were unlikely to see sixty dollars a share in their lifetime. Vague promises of restructuring and the Burger King spin-off were not as good as cold, hard cash. To hell with tradition. The Pillsbury board and senior management team had their chance many times over and continued to blow it. As for the employees, they were groping for any leadership at all. Years of chronic instability and mismanagement had taken their toll. The cheerful announcement by Jerry Levin of a Burger King spin-off, in which each share of Pillsbury stock would yield an additional share of the new publicly held Burger King, produced shock waves. Employees were expected to feel a sense of pride and cohesion. But what they saw was their hard-earned retirement income converted into stock that would decline in value at a geometric rate the date after issue. With almost obscene bravado, Jerry let the mass of employees know that he would be leading the new independent Burger King…and, by the way, only one-third of the staff would probably remain.

The employees knew, far better than the shareholders and industry analysts, the true state of the company. The employees would take their chances with an outsider and decided to trust their luck with an unknown company, Grand Metropolitan.

The employees seemed to understand that nothing good could possibly come of this. No matter who won the battle, a corporate bloodbath would surely follow.

I believe the memorandum fairly reflected the view of most employees and most franchisees. The Burger King family was extremely upset about

Pillsbury's stated intention to defrock the company.

It was about this time, during the heat of battle, and largely as a result of the publicity about a potentially damaging franchisee revolt and retaliation, that Pillsbury decided to abandon plans to affect the spin-off of Burger King Corporation. This idea was proving to be much too difficult to sell to the many constituents who might be affected by this action, and there seemed to be little doubt that, from a legal point of view, we might be stepping into a litigation minefield.

In November, at a hearing in Delaware's Chancery Court, Judge Allen made some significant comments. He told Grand Met's attorneys that he had looked at Pillsbury's confidential financial information and saw more value than the sixty-dollars-per-share bid. In effect he said that if circumstances remained as they were, the pill could stay in place, and he went on to suggest that Grand Met "must demonstrate some movement" if he were to change his mind. He scheduled a hearing for December 12 to consider the spin-off issue and to hear other arguments as to why the pill should or should not remain in place. What Judge Allen was saying to Grand Met was in effect: "I see more value than sixty dollars, and if you want to stay in the arena and move this along, you had better get your best offer on the table."

To Pillsbury the judge was saying, "Show me how and why you can place a higher value than sixty dollars on your shares. What values do you see and what is your basis for drawing these conclusions?" He essentially said, "You can't just say no to Grand Met unless you come up with a better value for your shareholders." This served notice to the Pillsbury directors that they were required to come up with a better plan than the one contained in Grand Met's proposal. In the absence of an acceptable plan, Pillsbury ran the risk that the judge might enjoin the spin-off and pull the pill, thus enabling

the shareholders to decide for themselves whether or not to accept Grand Met's sixty-dollars-a-share offer.

By early December, Grand Met increased their tender offer to sixty-three dollars per share. Pillsbury was given a matter of days to accept it under threat of it being withdrawn. With the hearing before Judge Allen set for December 12, the pressure on Pillsbury was intense. Discussions between opposing lawyers indicated a higher figure was available if the matter could be settled soon between the parties.

The Pillsbury board met by telephone on Sunday, December 11, and learned that discussions between investment bankers representing both sides indicated that a sixty-six-dollar offer might be arranged. There was even a hint of sixty-seven dollars. The directors were made aware that the Grand Met CEO, Sir Allen Sheppard, had left a formal sixty-five-dollar offer on the table with the understanding that it would expire at midnight. This put even more pressure on the Pillsbury directors, requiring us to look at all of our available options. With Judge William Duffy about to hear the arguments the following day in Delaware's Chancery Court, Pillsbury's options were very few in number.

It all seemed to boil down to this: we could accept the sixty-five dollars, or reject sixty-five dollars and try to negotiate a higher price, perhaps sixty-six or sixty-seven dollars. Our final option would be to litigate, arguing in support of keeping the pill in place and only agreeing to remove the pill if we could settle the matter at sixty-eight dollars, but not lower than that. Litigation would take up to three months, and chances of winning were not very promising. Our attorneys reminded us that we would "be in the swamps a long time" if we wanted to go that route. Meanwhile, the business

would suffer immensely. The uncertainty surrounding this ongoing battle had the effect of numbing corporate activity and employee morale.

Stockholders and arbitrageurs were clamoring for settlement, and the parties were not that far apart. The Pillsbury board met again by telephone on Monday morning, December 12. Judge Duffy scheduled a court hearing for 2:00 p.m. Grand Met's sixty-five-dollar offer expired the night before at midnight. All we had to look at now was the sixty-three-dollar tender offer. In our telephone meeting, the board passed a resolution officially rejecting the offer as being inadequate. Our attorneys gave assurances that, in their view, we could negotiate a sixty-six-dollar settlement. I argued in favor of making this settlement rather than running the risk of an adverse court ruling. This point seemed to have the support of most of the directors, but no official action was required at that time. The matter would go before the Delaware court that afternoon, and the ruling that would come out of that hearing would surely dictate our next course of action.

Judge Duffy heard arguments later that day, on December 12, and ruled on December 16. The long-anticipated ruling enjoined Pillsbury from spinning off Burger King and struck down the pill as the key anti-takeover defense. That sealed the fate of Pillsbury. All there was to do was to consider litigating the issue or negotiate the best deal we could with Grand Met.

The final meeting of the Pillsbury board took place in Minneapolis on Sunday, December 18. Lawyers for both sides had met in New York a few days earlier following Judge Duffy's ruling and agreed that Grand Met would submit a sixty-six-dollar offer for the Pillsbury board's consideration. After hearing from our attorneys and bankers, all of whom were in attendance, the board acted on their collective advice, passing a resolution acknowledging that sixty-six dollars a share was a fair price and that the offer should be

accepted by Pillsbury stockholders. The resolution passed with Bill Spoor casting the only negative vote. A merger agreement was signed the same day providing that all Pillsbury stock tendered by January 3, 1989, would be purchased for sixty-six dollars per share and that all remaining shares would be acquired and paid for in a so-called back-end merger at a later date.

A few days after Pillsbury capitulated, Ian A. Martin, chief executive of Grand Metropolitan's US operations, said that management changes at Burger King should be expected. "We most certainly will bring in someone from the UK with extensive food-retailing experience," Martin said. "That's almost certain." The *Miami Herald* reported that Martin expected to meet with Burger King franchisees, citing the fact that franchisee relations with Pillsbury had deteriorated as the result of the proposed Burger King spin-off plan, and another paper noted that many franchisees supported Grand Met during the lengthy takeover battle and applauded the London firm's victory.

I left Minneapolis on Monday morning, December 19, and headed for Miami and home. In the airport, I picked up a *USA Today*, the *New York Times*, the *Wall Street Journal*, and copies of the local papers. All of them had extensive coverage about the Grand Met victory. The local press speculated on the changes this British firm would force on Pillsbury, its thousands of employees, and the community itself. The local press speculated that there would be disruptions in the lives of men and women in the Twin Cities, and that many people would be faced with losing both their jobs and their livelihood.

Where did all this put Grand Met? They would pay $5.7 billion to the stockholders of Pillsbury and take over the company. Current Pillsbury earnings seemed to indicate that the company was fully priced at $5.7 billion, but Grand Met claimed that they knew how to build and market

brands and expressed their intention to substantially reinforce the Pillsbury presence in the marketplace. The Pillsbury Company owned some of the best-known brands and trademarks in the world, including Burger King, Whopper, Häagen-Dazs, Green Giant, Totino's Pizza, Van de Kamp's, Pillsbury's Best, and the Pillsbury Doughboy. It was the hope of everyone that Grand Met would be very successful and would ultimately justify their having made such a sizable investment. I wondered how they would approach the management challenge that was waiting for them in Miami at the offices of Burger King Corporation.

Ian Martin took over as chairman of both the Pillsbury Company and Burger King Corporation following the formal acquisition of the Pillsbury Company on January 9, 1989. He sent a young forty-three-year-old named Barry Gibbons to Miami and gave him the title of chief executive officer.

Shortly after Barry arrived in Miami, I called him from my office located on the fifth floor of the Burger King World Headquarters building. I introduced myself as the cofounder of Burger King and a recent director of the Pillsbury Company, adding a note of welcome expressing the hope that I would have an opportunity to meet him "in the near future."

He responded by asking if he could come right down saying he was anxious to meet me. Within a few minutes he was in my office, and after a very pleasant introduction, I got right to the point I wanted to make. I felt that he might consider it appropriate, and perhaps expected, that I would vacate my office after our recent hostile encounter, and I offered to do this saying, "After all, we have been through a bitter fight and I have been on the opposite side. I don't want to send out a signal that I disapprove of Grand Met or yourself, because I do not feel that way. My interest is completely singular. I am anxious to see you and Grand Met make a notable success of

the Burger King business, and to the extent I can be of any assistance, I am willing to help."

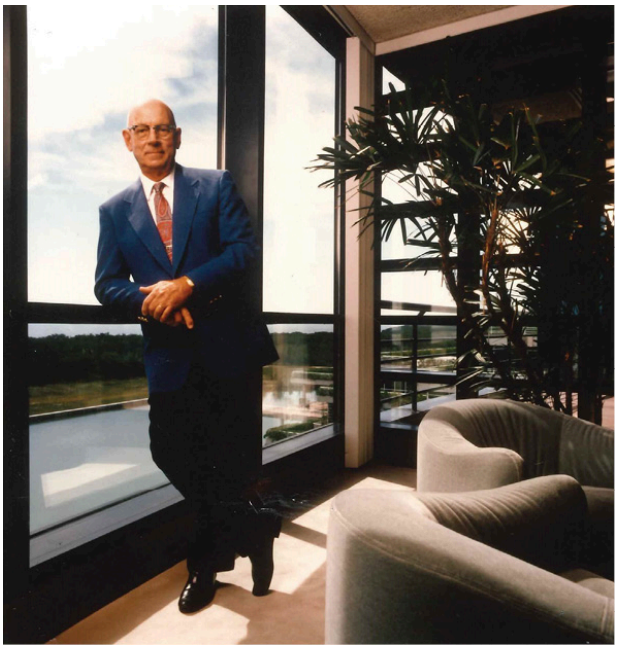
He looked at me intently saying, "Mr. McLamore, your reputation precedes you. I knew quite a bit about you before I arrived here. As a founder of this company, you have the respect of the many people who are associated with Burger King, and you would do all of us a great service and honor if you would keep your office here and continue to remain involved." I was deeply touched and complemented by this remark.

I remained in my office at the Burger King World Headquarters until August 24, 1992, when Hurricane Andrew dealt the building a cruel blow, causing over thirty million dollars in damage and requiring that the building be vacated. What was far more significant was the extraordinary damage and devastation done to the homes and lives of our many employees who lived in the direct path of this killer hurricane. Grand Met, in response to Barry Gibbons' leadership, made a particular point of looking after the interests of Burger King employees and families in the aftermath of this natural disaster.

These employees had no way of knowing how their future lives would be affected by another storm that would come in on the winds of reorganization and reengineering, as Burger King attempted to reposition itself for the future.

Chapter 24

STUMBLING BLOCKS FOR GRAND MET



Jim McLamore at Burger King HQ

In paying $5.7 billion in cash for the Pillsbury Company, it was generally conceded that the value of the Burger King piece might have been close to $1.5 billion, although this figure is pure conjecture. And Grand Met inherited some problems so far as Burger King was concerned.

As mentioned before, in 1985, Burger King started to experience a steady loss of business, and a downward trend continued for the next seven years before reversing itself in 1993. Average store sales declined during this period as menu prices continued to increase. The most noticeable decline was reflected in the losses of customer traffic. If management felt troubled by this, they showed little indication of any real concern. Business was in a free fall as menu prices were increased in an apparent attempt to recapture lost operating profits. The quality of restaurant operations suffered as profits declined.

Under pressure to increase profitability, the newly appointed Grand Met management went along with a strategy of increasing menu prices even further, which soon brought trouble to both Burger King and its franchisees.

From the mid-1960s on, the selling price of our signature product, the Whopper, was increased from thirty-nine cents to a 1993 high of between $1.79 and $2.89. During the same period, the original regular twelve-ounce soft drink increased from ten cents to about seventy-nine cents in most markets, although the size of the soft drink had increased to sixteen ounces. French fries had risen from a single regular sized portion selling for ten cents to three sizes ranging from seventy-nine cents to $1.29. Rising costs of ingredients and packaging accounted for some of the increases, but certainly not all of them.

Whereas food and packaging costs previously represented 43 percent of the customers' dollar, costs were currently running less than 30 percent,

resulting in the public receiving far less food for their money than they had received in the past. The business had been built on the simple proposition of offering our customers outstanding value. We had lost that initiative, and there was no attempt to restore it until calendar year 1993 rolled around.

Until 1993, many different marketing and advertising strategies were launched in an attempt to reverse the trend. Burger King spent hundreds of millions of dollars on expensive advertising and marketing programs, all of which failed to produce tangible results. At a distance, it was obvious that this was not the fault of our marketing and advertising campaigns. It struck me that it failed to deliver value to our customers, who were screaming in our ears and trying to tell us what was wrong. Unfortunately, management didn't get the message.

It was difficult to understand why the company no longer focused on the basic fundamentals that built the business: product quality and speedy service. Our restaurants needed fixing, and our operating strategy was woefully deficient. In situations like that, it is useful to remember that advertising is like a two-edged sword. It is risky and unwise to invite people into restaurants when the products and services aren't right or the business is poorly managed and not meeting customers' expectations. Good advertising might bring in new customers at first, but damage occurs when they are shown how ineffectively their needs are being met.

From 1985 to 1993, many different advertising campaigns hit the airwaves. Each one had a theme and a particular message to go along with it. Our consistency went right out the window with all the changes that were introduced. We seemed to lack any real ability to create and reinforce a strong and consistent image.

One campaign that followed "Herb the Nerd" was "Burger King Town," which was an attempt to position Burger King as the resident experts who know how to make the best hamburgers in "hometowns" all across the country. "Best Food for Fast Times" was another campaign designed to position Burger King as the best place for quality products in a fast-moving world. We were confusing people with frequently changing messages.

During this difficult time, I received a call from the editor of a leading trade publication. He asked me about the "fuzzy" image and the distorted messages which Burger King was sending. He simply couldn't understand what the company was trying to communicate.

There was a more urgent problem. Before launching advertising or promotional campaigns, we needed to upgrade the quality of our food and service and fix what was wrong inside the restaurants. That was the first order of business. The advertising situation could go on the back burner until we got our house in order.

We created one of our major problems when we introduced so many new menu items. This brought on even more confusion. We took the focus off hamburgers and put it on chicken, fish, desserts, and specialty sandwiches of all kinds. Even though the Whopper was clearly recognized as the most preferred sandwich in the United States, management took the focus away from hamburgers and our unique flame-broiled cooking process to promote other products. Before long, we were no longer "America's Burger King." This was the hard-earned and lofty position we had fought for throughout the years.

Another classic advertising failure was a campaign called "We Do It Like You'd Do It." This multi-million-dollar effort was intended to convey the message that Burger King prepared its food just like the public would do it if

they had the opportunity to prepare the products themselves. The July 16, 1993, edition of the *Wall Street Journal* contained the observation that "the gutters of Madison Avenue are clogged with discarded slogans that once, in someone's conference room, probably seemed nothing less than brilliant.—like Burger King's short lived 1988 tongue-twister, 'We do it like you'd do it, when we do it like we do it at Burger King.' " The article goes on to say, "Sometimes a brand is haunted by a catchy old slogan that just won't die. Burger King has gone through ten mostly forgettable lines since, 'Have It Your Way' bowed out." "Have It Your Way" was a winner and it had been tossed out.

After downplaying hamburgers and later recognizing the mistake, the "We Do It" campaign attempted to capitalize on our unique broiling method of cooking hamburgers. This is what distinguished us from our competitors. The television advertising presented scenes of fun on the beach and backyard cooking, but not too many shots of the products available in our restaurants. Another costly campaign called "Sometimes You Gotta Break the Rules" launched. The idea behind this controversial campaign, at least in the minds of our marketing executives, was that Burger King was willing to go to extremes if that's what it took to bring our customers the very best in food and service.

As these expensive campaigns wound down, the sales needle never moved, and traffic counts continued their free fall. I was convinced that the problem was centered on the fact that Burger King no longer offered value to its customers. We were pricing ourselves out of the marketplace. We should have been addressing that issue and using advertising to tell the American people that we were doing something to put value back in the equation.

In the middle of these ill-conceived marketing campaigns, I received a call from Dave Thomas, the founder of the Wendy's restaurant chain. I met Dave in 1975 when I was serving as president of the National Restaurant Association. I was in Chicago at the time attending the NRA Trade Show and Exposition. Dave had come to Chicago to attend the opening of Wendy's store number forty, which was his first restaurant in the state of Illinois. Although we did not know each other at the time, he asked me to come to his restaurant opening and make a few remarks. This occasion developed into a long-lasting friendship with this interesting man.

Years later, after Dave moved to Ft. Lauderdale, we saw each other at various community functions and other gatherings, all of which contributed to our growing friendship and mutual respect. We both had an interest in the plight of abused and abandoned children, and both supported charitable activities in the South Florida area. The McLamore Children's Center was a prominent Miami facility operated by the Children's Home Society engaged in this work.

Dave called me to suggest that we should discuss some problems connected with the children's care. I suggested that we meet at my office located in the Burger King World Headquarters for lunch. As we were walking to the dining area, he turned to me and said, with a sort of twinkle in his eye, "Jim, about your advertising programs, don't change a thing. These campaigns are just fantastic." Looking at the mischievous grin on his face, I got the message that even our competition couldn't understand how we were trying to position Burger King in the minds of the public.

Dave knew about our situation, and I must have had a frustrated look on my face following his well-intended remark. He asked me what I would do if I still ran the company. I answered, "I'd do what Lee Iacocca does for

Chrysler and be the spokesman for the company. I would tell the public that I created the Whopper over thirty years ago, and I would show this hamburger on television with the comment that the public considered the Whopper to be the best and most preferred hamburger in the country."

A few months later I saw Dave in his first television commercial acting as the spokesman for Wendy's. I don't know whether he got this idea from me or whether it was something he had already decided upon, but Wendy's decision to use Dave as its spokesman proved to be one of the most highly successful marketing strategies in the food-service industry. This personal touch to the Wendy's marketing program helped to increase their store sales significantly over the years following.

Dave used his homespun manner to successfully introduce a value menu and a number of new specialty products. Wendy's was one of the first restaurant chains to recognize the need to address the value issue head-on and was one of the first chains to capitalize on an enthusiastic consumer response. With Thomas as the chief spokesman conveying the value message, Wendy's store sales increased significantly, while Burger King continued to show flat to negative average store sales and traffic counts. Entering 1993, Burger King's average real store sales were declining for the seventh consecutive year, and the average restaurant's customer counts had fallen off by over 25 percent since the end of calendar year 1984. The situation was critical and with sales reaching such low levels, many franchisees found themselves in a tenuous financial position.

The problems of declining sales and traffic counts continued during the initial Grand Met years of 1989 to 1993. The record kept by the Marketing Department of Burger King Corporation tells a very sad story. The table explains share of traffic, which is the percentage of Burger King customers in

the overall Quick Service Restaurant (QSR) Sandwich category. These are fast-food customers who eat sandwiches, including hamburgers. "Average restaurant sales" reflects the actual dollar sales, unadjusted for menu price increases. The "average customer count" accounts for the number of customers served in the average Burger King restaurant.

Year	Share of Traffic	Avg. Restaurant Sales	Avg. Customer Count
1985	17.0	1,014,000	943
1986	16.6	1,020,000	893
1987	16.5	1,012,000	872
1988	16.6	983,000	842
1989*	16.2	952,000	792
1990	15.7	955,000	735
1991	15.0	946,000	697
1992	14.6	961,000	687

* Grand Met takes over January 1989

The loss in average restaurant customer counts went from 943 in 1985, to 687 in 1992, a loss of over 25 percent of our average customer base in eight years. If that trend continued, the impact on the company and its franchisees

would have been staggering. Jim Adamson was made CEO in mid-1993, at a time of disappointing sales, declining profits, frustrated franchisees, and real concerns about the future. Everyone was hoping that Adamson could reverse the trend and get the company back on track.

Jim Returns to Burger King

When I came to Burger King as COO, I was not from the fast-food business or a franchise industry. I was a duck out of water. Before I was CEO, I knew Jim McLamore had an office at Burger King headquarters, but no one really reached out for help or talked with him about the company in an active way.

When I took over as CEO in 1993, I wanted the same help Jim McLamore had been offering us before. He still maintained an office in our building, so I went down and said, "Jim, you are Burger King personified. This company has struggled for eight years and there was a war internally with franchisees. I like what you have done so far, and I want you to continue helping Burger King. I'm here to turn it around, but I could use your help, and I need your input."

Jim said, "I would love to help, but I have one condition: I will be brutally honest, and I might throw some harpoons. I won't hold back." So I went home that night and thought about it, and the next day I came back and agreed.

It became clear that if I was going to fix Burger King, I needed the franchisees behind me. Jim and I got together and started the "Jim and Jim Show" to talk about all the issues and strategize to fix the problems Burger King had been facing. Jim became my mentor and advocate, and he helped me get things done with the franchisees that corporate had not been able to do before. Within eight months, we turned Burger King around and set up a new franchise agreement, in large part due to Jim's candor and hard work.

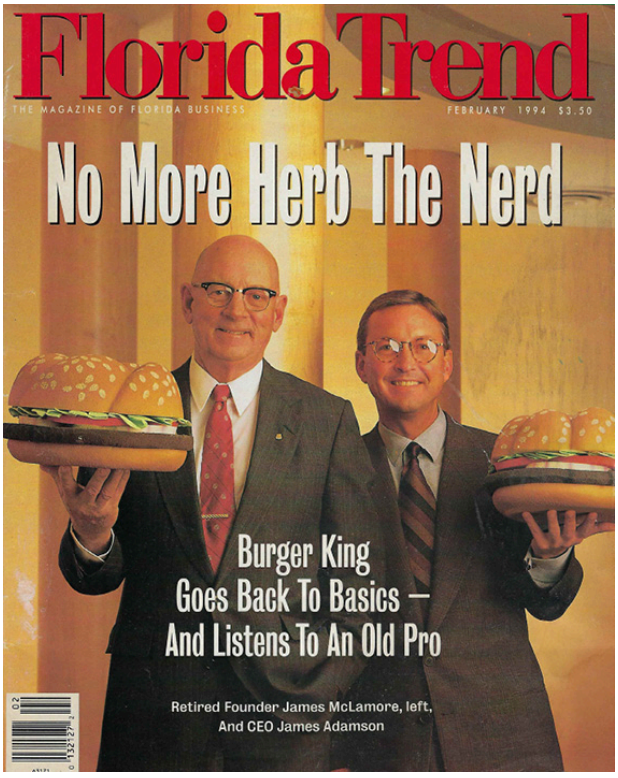
I'd never have been able to do that in such a short amount of time without Jim's help. He could take anyone under his wing and guide them to success. That's what he did with me in this franchise system. The franchisees listened to him and respected him, and I believe that my success was because of Jim's influence, both personally and with the franchisees.

I look back at my career, and my first CEO job was at Burger King. It was at the feet of Jim McLamore that I learned some great lessons I took with me throughout the rest of my career and which helped me succeed at those other roles.

Jim Adamson, CEO of Burger King, 1993–1995

Chapter 25

GETTING INVOLVED AGAIN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No More Herb The Nerd
Burger King
Goes Back To Basics –
And Listens To An Old Pro
Retired Founder James McLamore, left,
And CEO James Adamson

Jim Adamson and Jim McLamore

Since stepping down as Burger King's chief executive officer, I maintained a certain level of contact with company officials and a few franchisees but never again acted in any official managerial capacity. My involvement was limited to those infrequent occasions when I was asked to address the franchisees at a national convention and speak informally on a range of subjects of my own choosing. I was no longer a presenter or commentator of the company's plans for the future, and I never used these occasions to express approval or disapproval of company strategies or practices.

These conventions were management's opportunity to present operational and marketing plans while reinforcing their relationships with the franchisee community. My basic and simple message on these occasions was to remind everyone that the original Burger King operational system was the best in the business, and that it was important to adhere to these standards. I felt it was very important for me to reinforce the notion of compliance with the basic and fundamental principles that built the business: the quality of our food, the cleanliness of our restaurants, the speed of our service, and the courtesy of our employees. This has always been the basic formula for the success of the Burger King business, and I try to drive the point home at every opportunity that is given to me.

Dave Edgerton and I envisioned that Burger King's success would be built around strict adherence to the simple principles of quality, cleanliness, speed, and courtesy, but we also knew that we needed to put a heavy emphasis on getting to size quickly in every market we entered. We believed that the ultimate reward could only come as a result of building a strong market presence. Notwithstanding our aggressive expansion goals, our franchisees were urged to concentrate on planning for intelligent growth while trying to stay away from the kind of rapid expansion that might expose them to financial instability.

We reminded franchisees about the importance of becoming one of the nation's major advertisers because of the great strategic significance of heightening our competitive position. I have always had a deep appreciation for the important contributions our franchisees have made in helping to build the business. I cared about them, and they seemed to understand and appreciate that fact. The success of the Burger King system always depended on the success of our franchisees. When these people signed on as franchisees, I felt that they were placing their trust and confidence in us, and I always made a point of trying to justify that faith.

By 1993, many people in the franchisee community were up against hard times. Business was off significantly, and there was a general mood of despair and the feeling that, unless something dramatic took place, things were not going to get any better. So in January of 1993, I received a call from Jerry Ruenheck, then serving as the president of the National Franchisee Association, asking if I would be willing to attend a gathering of franchisees at one of their upcoming meetings to speak about the problems that Burger King was currently facing and offer some suggestions on how best to deal with them.

Before I agreed to accept Jerry's invitation to speak to this gathering, I met with Barry Gibbons, the Burger King CEO at the time, to discuss the matter. My relationship with Barry Gibbons had certainly been a cordial one during the four and a half years he had served as Burger King's chief executive officer. He was an intelligent and forceful leader with strong opinions on marketing, restaurant operations, and franchising, and although I did not agree with him on many of these important matters, we were able to communicate freely and easily with each other on those rare occasions when we got together.

Barry had a number of confrontational run-ins with franchisees over a number of issues, and on some occasions he spoke rather sharply to them in expressing views about franchisees' responsibility under their contractual relationships with the company. I had never been asked to take an active role with the company, and I really never expected to be asked. Barry was well received by the business community in Miami. He was an excellent speaker, able to deliver remarks with great charm, and he had earned the reputation of being an effective corporate executive.

When I brought up the franchisee gathering, I said that I was inclined to do this, but only on the basis that my presence and remarks would make a constructive contribution to the situation. I told Barry that I felt strongly that many of the problems confronting Burger King at the time were of the company's own doing, and that if I addressed the meeting, I would be candid in expressing these views. I saw no way to extricate ourselves from the current dilemma other than by identifying and commenting on the policies, strategies, and tactical decisions that I believed were to blame for the problems we were facing. To Barry's credit, he urged me to accept the franchisees' invitation to address their meeting.

This put me in an interesting position. It was the first time in twenty-one years that I had been asked by Burger King management to address franchisees on corporate policy issues and operational matters. I welcomed the opportunity to get involved in this process. I called Jerry to accept his invitation and agreed to address the NFA meeting scheduled in Tampa on February 25.

I felt that I knew exactly what was wrong with the way our business was being run, and I had some definite suggestions for how the problems should

be dealt with. I was very pleased to have the opportunity to express my views on the subject.

In the past, I never discussed my concerns about Burger King's strategic direction either publicly or privately, even though I often had serious misgivings about the way things were being handled. I felt that doing so would be disruptive to the system. Unless I could address the issues openly and constructively within the system and with the endorsement, approval, and support of management, any comment I made might only make matters worse.

My introduction was followed by a long-standing ovation. This troubled gathering seemed to understand that I knew what their problems were, and it seemed clear that they were hoping that I might offer some suggestions to help lead us out of the difficult position we were in. Burger King had been experiencing declining store sales and customer traffic for eight years at this point, and things were still on a downhill track. The situation was grim, and the mood in Tampa was somber.

Sitting on the sidelines during these years enabled me to see what was happening. The problem, in a nutshell, centered around the ineffective advertising campaigns, the increased menu prices, and the resulting loss of consumer sales.

Added to this was the fact that in a two-year period beginning in 1985, Burger King had three different chief marketing officers heading the marketing department. Each one of these executives had different ideas on how to position the company, so marketing strategies began to shift all over the place. During a period of years, menu prices were steadily increased, while a thoughtless array of new product introductions brought confusion to customers and employees alike. This ultimately caused a 34 percent

decline in our average restaurant customer traffic, while we were spending over one billion dollars in advertising, merchandising, and sales promotions in the expectation of building sales.

The first point I made in my Tampa address was that we were pricing ourselves out of the market. We were no longer perceived as the place to go for value. This was the basic problem, and as far as solutions were concerned, I said that the only way to recover what we had lost was to begin offering the public substantially more value than we had been in the recent past. A few years earlier, Taco Bell had fired the food-service industry's opening volley by dropping their prices dramatically on a number of their leading menu items. Wendy's and McDonald's followed a short time later by bringing out their own value menu as a lure to build traffic and sales. We had done nothing in response to these initiatives, while the industry had begun a war of discounting.

I then told this story: Shortly after our competition put their pricing moves in place, I ran into our chief marketing officer in the hallway of our headquarters building and asked him how he planned to respond to these initiatives. I presumed that he must have had a plan in mind. I was surprised when he expressed his complete disagreement with me and went on to say that our competitor's price discounting would ultimately backfire. I asked him to explain why he felt that way. His position was that our competitor's price discounting would convey a message to the public that their products were not worth what they had been charging in the past.

This was the basis for his predicting that customers would become so disillusioned with the pricing integrity of these businesses that they would quit coming in. He concluded by saying that Burger King was going to hold the line on prices and stay the course so far as maintaining high profit

margins was concerned. I couldn't believe what I was hearing. Menu presentation and pricing are important strategic issues, and I knew for certain that in taking this "hold the line" pricing position, Burger King would soon be looking right in the face of an upcoming disaster. We were totally out of sync with the world around us.

By the time of the NFA meeting, there was no doubt that the system was really hurting. The nation's economy had been flat for some time and many people were out of work. Consumer confidence was very low at the time, and the public was looking for value and aggressively shopping for price. I reminded franchisees that the 1990s had already become known as the "value decade," and suggested the first order of business was to address the value issue head-on quickly. I reminded the audience that if the company failed to lead the way with an effective value-engineering program, we were in for even bigger trouble in the near future.

The second point I made was that the Whopper was being underutilized as an important marketing tool. I reminded everyone that whenever Burger King ran a ninety-nine-cent Whopper promotion, our sales went right through the roof. This was solid evidence that whenever we offered our signature product to the public at a favorable price, our customers came back to our restaurants in droves. I suggested that many markets could introduce a ninety-nine-cent Whopper on a regular basis, and that all others should use it in combination with French fries and a soft drink, also at a favorable price.

Building customer traffic would stimulate sales in the whole product line, and although margins might suffer slightly, our restaurants would be rewarded with a significant increase in gross profit dollars. I urged management to use the Whopper as the main attraction in luring business

back into our restaurants, predicting a resurgence of sales to the high levels we had enjoyed in the past. This strategy had proven successful in a number of key markets where innovative franchisees that had adopted this strategy were reporting sales and traffic increases of up to 40 percent or more since introducing the Whopper at the regular price of ninety-nine cents. Prior to this, the Whopper had been priced in the range of $1.79 to $2.09 in most markets. The theory behind discounting the Whopper was that it would build traffic by taking a much reduced, nominal profit on the sale of each Whopper in exchange for selling ancillary products at regular margins to a vastly increased customer base.

The Whopper had bailed us out before. The first time was in 1957 when we first introduced it. Since that time, it has earned the recognition of being the most preferred large hamburger in the country. By 1993 we were selling over two million Whoppers every day, and surveys showed that the American people favored the Whopper by as much as two-to-one over any other hamburger. I expressed the view that this sandwich was a very powerful and effective marketing tool, if used properly. I criticized a number of the company's marketing strategies.

Even as I spoke, we were then spending tens of millions of dollars promoting "dinner baskets," which featured a steak sandwich, fried (frozen and breaded) shrimp, or a breaded thin chicken cutlet, all of which were of very marginal quality. The dinner baskets idea was introduced to build evening sales by offering a full-meal kind of service directly to their table. An added feature of this service entitled our customers to receive free popcorn while they waited.

This was a real departure from our proven system of service, and it was a major operational problem. The most popular dinner basket turned out to

be a Whopper with French fries, which shouldn't have surprised anyone, because these two items were long established as the most popular items on our menu. Our customers were trying to tell us that they wanted Whoppers and fries and were not interested in marginal-quality dinner items that we were ill-equipped to prepare and serve anyway. I am certain that our franchisees would have killed the idea if they had been given a voice in the matter. Even though our restaurants were selling less than twenty dinner baskets a day, we kept the program alive for almost a year and a half, and it was reported that we spent over forty million dollars trying to promote it. When it was finally discontinued, management was forced to admit that it had been an utter failure.

I spoke about recent thoughtless menu proliferations responsible for creating confusion and slower service, which aggravated customers and employees alike. I had recently spent time studying our own market research, advising management that fast-food restaurant customers across America now perceived Burger King to be the worst provider of value among all of the top chains. This research also revealed that the major complaint was our inability to fill our customer's orders accurately. This, I explained, was the direct result of adding a senseless variety of new items to an already overcrowded menu.

I leveled heavy criticism at the way management had cut back on services to the franchisee community. Regional and district offices had closed all over the country, leaving franchisees to service themselves. I complained that this shortsighted policy was wrong and that it was bound to lower the standard of restaurant operations around the country.

The headquarters of Grand Metropolitan in London, England is located a long way from the Burger King headquarters in Miami, Florida. The Grand

Met is noted for its expertise in the areas of finance and marketing, in which the company had earned a very outstanding international reputation. They were not as highly respected, nor had they earned such high marks as a company having exceptional operations skills. If they had contributed to the decision to have Burger King cut back on services to the restaurants, they should be held responsible for the fallout that would surely occur as the result of this decision. Cost cutting is one thing, but cutting necessary servicing to a business that requires it is something that will surely lead to irreparable damage.

I drew attention to past ineffective advertising campaigns and suggested that the current television spokesman we were using did not convey an appropriate image for the company. The spokesman at the time was MTV personality Dan Cortese, who appealed mostly to eighteen-to-twenty-five-year-olds. The recurrent theme of this advertising was "I love this place." within ten months after I had criticized this campaign to our franchisees in Tampa, the trade press, *USA Today*, and the *Wall Street* Journal had all singled out our "BK Tee Vee" campaign as one of the worst advertising campaigns of 1993.

I thought it was important to get away from the kind of advertising we were doing and talk more to a broader, more diverse consumer market about our products, while focusing on the value issue. I emphasized that we needed to establish that we were the industry leader in selling quality hamburgers and other high-value menu items. What I tried to hammer home was that our signature product, the Whopper, was the proper vehicle to use to get these important points across.

At the time of the Tampa meeting, the then current policy gave our franchisees the authority to decide which advertising and marketing

strategies would be used in their own areas. I expressed that this cumbersome arrangement had to be discarded in the interests of the entire Burger King system.

For better or for worse, the organization had to put its confidence in a single authority when it came to determining overall corporate advertising and marketing strategy, and that authority had to rest solely in the hands of the chief executive officer of Burger King. Franchisees had lived through one marketing fiasco after another, and they had witnessed the waste of huge sums of their advertising dollars. The media planning and media buying functions had been in disarray for a while, and the creative executions of our unfocused advertising strategy were justifiably receiving stinging criticism from the press, outside observers, and of course, the franchisees themselves. I could understand why the franchisees wanted to jump in and take charge of it all, but in my judgment, that simply wasn't going to work. I was convinced that the final authority in such matters had to be in the hands of management.

It was becoming increasingly evident that network television advertising would have to give way to more regional and local advertising, so each individual market had its own character, opportunity, presence, and marketing plans. We were looking for advertising strategies with a potential for returning the system to prosperity, but the problem really centered on the fact that the company had not dealt with the nightmare of operational shortcomings, menu proliferations, the pricing issue, or service in the restaurants. These issues had to first be addressed before the system could be restored to competitive status. Advertising alone wasn't going to solve that problem. The first job was to fix the business itself, and at this particular time our restaurants needed a lot of fixing.

A major responsibility of any marketing department is to identify problem areas and find solutions, but they hadn't done this. Our management knew about these problems for years, because reports from our research people had pointed them out. Unfortunately, they had been disregarded. Management's oversights, and their inability to recognize and deal with operating deficiencies and other serious shortcomings, had to be dealt with before Burger King took another step. I said it was pointless to focus exclusively on advertising aimed at luring new customers into our restaurants when we were not operating them properly.

Another deeply troubling issue involved our competition. I told the franchisees that I couldn't understand why we hadn't gone after the double drive-thru operations that were springing up all around us. At the time, these new businesses represented a significant competitive threat. Their specialty was a hamburger made exactly like a Whopper. It was just a little bit smaller, but it was priced at ninety-nine cents, about half as much as we were charging for the Whopper. The rest of their menu consisted mostly of French fries and soft drinks, at prices which were also slightly below ours. With no inside seating, customers were served through two drive-up windows, exactly the way 60 percent of all fast-food customers preferred service. They had an important competitive advantage in this regard. Their simple menu was about the same as ours was thirty years earlier. Their food was presentable, the service was fast, and their prices were low. They were throwing up stiff competition, and up to that point had produced no response on our part. By our inaction we were inviting our competition to enter the marketplace with some assurance that they would never be challenged.

In concluding my remarks, I expressed my confidence in the future and made some specific comments on why I felt such a sense of optimism. One

of our great strengths was in the fact that we still had a firm grip on the number two position in the marketplace, at least with regard to the number of restaurants we had in operation. We had advertising and marketing revenues of over $275 million a year to work with, which was a matter of considerable significance, but without question, our greatest strength was the fact that we had the nation's favorite sandwich, the Whopper. I reminded our franchisees that these two assets should be used to our maximum advantage. By restoring our competitive status in restaurant operations and marketing, we could position Burger King in the public's mind as the favorite place to eat, and this would soon begin to generate increased sales and profitability.

I could tell by the franchisees' reaction that they agreed with my assessment of the key problem areas. I had spelled it out in clear and unmistakable terms and delivered a message to management that they should get busy and start dealing with the issues. It would be interesting to see how they would respond to the challenge.

The franchisees at the Tampa meeting seemed pleased to see me taking a more active interest in the affairs of the company. Barry Gibbons and Jim Adamson, who was then the chief operating officer, continued to encourage me to become more involved in spite of the challenges and criticisms I continued to make about the way the business was being managed. A few months earlier, at the company's request I traveled to Portugal to address a gathering of franchisees from Europe, the Middle East, and Africa. Previously I made some brief comments to several thousand franchisees gathered at a Burger King convention at Disney World in Orlando. Now, with management's encouragement, I would be traveling to different parts of the United States to speak to franchisee groups and our own regional, district, and national restaurant managers. The promise I was receiving from

top management was that the suggestions I was making would be given proper attention. That was enough to get me to roll up my sleeves again.

Jim continued to encourage me to speak to franchisee groups and restaurant managers as frankly and candidly as I had done before. Adamson's position seemed to be that he was prepared to make any changes that would help restore the business to higher levels of sales and profitability, and he was inviting me to be as actively engaged in that process as I had time for. I thought to myself that this fellow had a lot of confidence in himself, and if he had any ego at all, he wasn't going to let it get in the way of making good decisions. I wondered how many CEOs in his position would have invited a founder and former CEO of the company to come back and work side by side with him in the process of healing the business.

Jim urged me to go to Toronto in late May to address another gathering of members of the National Franchisee Association. I told him that I would be pleased to do that but cautioned him again that I would continue to speak out in criticism of the company's way of handling certain matters. He said that he understood that and expected that this would be a condition of my going there.

I received another warm reception in Toronto, and my message was essentially the same as I had delivered in Tampa three months earlier. It was apparent to the management personnel who attended this meeting that the franchisees and I were on the same wavelength. They knew that my comments had touched the core of the problem.

Jim Adamson and members of his top management team also spoke in Toronto, and I was pleased in listening to their presentations that they were beginning to acknowledge the problems and mistakes of the past. I thought that it was very therapeutic to hear management talk so openly and frankly

about past mistakes in the context of planning for the future and coming up with strategies aimed at building back restaurant sales.

In discussing possible solutions, management presented their initial ideas for implementing a value menu, which in my judgment, was the first and most important step. I thought their initial proposals were a little weak as far as the value issue was concerned, but it represented a good start, and I was beginning to feel that Jim Adamson might be just the right person to get Burger King back on the rails. I liked his decisiveness, candor, and straightforward approach in talking to the franchisees. He was obviously serious about attacking the problems and issues we had spoken about.

After leaving Toronto, I met Nancy in Chicago where she had been visiting her mother. We flew from there to Denver and then on to our home at the Old Baldy Club in Wyoming. Burger King had recently canceled plans to hold a national convention in San Francisco in the fall, where at management's request, I had been planning to address the gathering. The expected attendance was over four thousand members and participants of the franchisee community. The cancellation of this convention was very disappointing to the franchisees that had looked forward to an opportunity to get together and hear some encouraging news about future plans.

After learning about the cancellation, the NFA decided to hold their own convention in October and asked me to attend and be their featured speaker. I accepted this invitation, and between my occasional trips to Miami during the summer, I spent a considerable amount of time talking with franchisees and management about the current situation. It was time to fix the business, so it was important for me to get a more accurate understanding of what was going on in the marketplace. I wanted to help unite management and franchisees in the hope that, by building bridges of understanding, the

parties would develop a feeling of confidence in each other. Tension was still running deep, and in this hostile environment, where many unresolved issues continued to exist, I hoped that my remarks to the NFA convention would help heal some wounds and assist in the recovery process. This would start to happen when franchisees had evidence that business was on the rebound.

My talk at the NFA convention in October 1993 was well received. I was given another warm reception by the franchisees who seemed to be encouraged by my recent involvement and visibility. I hammered away with many of the same messages I had delivered in Tampa and Toronto, but I touched much more heavily on the value issue, stressing the importance of meeting our competition head-on and suggesting that the Whopper should be the vehicle to deliver the message of price and value. I was optimistic that our business could improve if we returned to the basic fundamentals. We had neglected these principles in recent years, and it was time to refocus on them again. The important issues of quality, speed, simplicity, cleanliness, and customer service needed to be stressed before we could expect our customers to return.

What I felt was particularly therapeutic about my message was the fact that I was still hammering away at management about their past mistakes, inadequacies, and inept leadership. Jim and members of his top management team were in the audience listening to my description of what had gone wrong and what needed fixing. I had warned Jim that I would continue "throwing harpoons at him" to make the point that Burger King had a lot to do before we could get the system back on track. I have no end of admiration and respect for someone who was so willing to welcome such challenges as a means of restoring vitality to a business which had suffered so much in recent years.

Adamson's own remarks to the franchisees were also well received. He and his management team had recently introduced a value-oriented menu, which seemed to be producing favorable results at the time. He established the fact that he recognized the importance of menu simplification and product improvements and stated that he expected to introduce such innovations in the near future. He committed himself to a thorough review of the advertising and marketing situation, which he acknowledged was in need of a major overhaul. He was candid in stating which franchisee demands he would support and which ones he would reject. His integrity and forthright expression earned him a great deal of respect. The parties seemed to be reaching a common ground, and mutual confidence was being restored.

After the San Francisco meeting, I received a flood of invitations from regional franchisee associations asking me to speak at their meetings, which were usually structured in the form of restaurant managers' training conferences. I planned to accept as many of these invitations as I could fit into my schedule, because of the belief that my presence and comments could make important contributions to the revitalization of the system. I had a strong feeling that speaking to these managers was one of the most important contributions I could make toward improving our business. These managers have the responsibility to see that our customers are greeted and served in the proper manner. Each manager has an opportunity to influence fifty or more employees at each Burger King restaurant, which meant that my message at each conference could influence 20,000 employees, each one of whom could help to make a customer's visit more satisfactory.

By the early fall of 1993, the Burger King management team was working on a number of strategies that looked very promising, although a number of them were still very much in need of sharpening. Jim and I were spending

more and more time together, with healthy exchanges of ideas on the subject of improving our business. One of our important communications projects involved the sending of videotape messages to our 1,500 franchisees and management people at a time, on a variety of subjects of current interest. These half-hour tapes featured Jim and I exchanging comments and observations about operational and marketing issues. The discussions were direct, challenging, and sometimes heated, but the message came through that we were acting as an effective team in formulating a plan to build the business back to previous levels.

The financial and trade press had picked up the magic of the transformation Jim Adamson was working on Burger King. *Business Week* magazine ran a story about the current turnaround and focused on my becoming more involved in the business. *Florida Trend* magazine did an interesting story picturing Jim and me on the cover with the caption "Burger King Goes Back to Basics—And Listens to an Old Pro." *Advertising Age* and *Brand Week* ran similar stories citing changes and our new direction. Burger King was waking up, and people were beginning to catch the significance of the great potential that still remained in the sleeping giant.

Jim's View of Marketing

The early '90s were a turbulent time for Burger King. The company struggled from declining sales and customer counts, and the revolving door of the executive suite did nothing to assuage tensions between management and franchisees. However, Jim Adamson's appointment as CEO marked a pivotal moment for Burger King. His "Back to Basics" campaign became the catalyst for a highly successful six-year run that boosted average restaurant sales growth and stole market share from McDonald's. But without Jim McLamore playing diplomat between executives and franchise owners, I'm not sure Burger King would have been able to correct course.

Around this time, I was asked to lead the US marketing team after nine years in various marketing and operational roles. Having spent the majority of that time working directly with franchisees, I was confident I understood the business and franchise community as well as anybody. It's one thing to be confident when you're at the frontlines and not responsible for strategy and marketing, but being the navigator in the eye of a storm is an entirely different animal. Every day presented a new challenge, especially when it came to franchisees.

Jim McLamore was a regular attendee at regional/national franchise meetings, offering candid assessments of the business and advice for getting Burger King back on track. This was my first introduction to Jim. Despite being very nervous when we first spoke, I soon realized how much our opinions aligned on strategy, marketing, and franchisee relationships, and working with him directly became easy. Jim would travel around the country meeting with franchisees and then call me to debrief. His feedback—good or bad—was direct and straightforward. Always business, never personal.

I began inviting Jim to meetings at the Burger King offices to review critical elements of our marketing strategy. My intention was to not only solicit feedback, but also get his help advocating for new marketing programs to franchisees. As we were working on a complete overhaul of the menu, franchisee buy-in was essential to implementing these new programs effectively. Many of the changes would be challenging and expensive for franchisees after years of sales and margin declines: we wanted to invest in product quality improvements, agree on national value meal price points, eliminate menu items, and introduce new ad campaigns. However, Jim's engagement and support of these programs helped enormously. Franchisees trusted his judgment and were willing to get behind such drastic changes if he believed they would produce results. And personally, Jim's guidance made me a more confident leader and taught me valuable lessons in communication and relationship building. The Back to Basics campaign needed Jim's support to breathe new life into the company.

To Jim, the Whopper transformed Burger King from a restaurant into a *brand*. Flame-broiled, bigger, better burgers made "your way," paired with a side of fries and a Coke. This was Burger King's heart and soul. And Jim spent much of the early '90s convincing management and franchisees that staying true to the brand would ultimately drive results.

Jim was equally passionate about the franchisee community. He built the entire Burger King system in partnership with franchisees, and therefore understood how important they were to the brand's success. In fact, he considered them customers: if the company treated franchisees well, they in turn would take care of their own customers. It pained him to see such a fractured and strained relationship between franchisee and franchisor, and he worked tirelessly to get the two sides to work together more effectively. Throughout this process of mending bridges, Jim taught me to be a better listener and to not be afraid of accepting franchisee input.

With Jim's help, franchisee relations improved, along with results. By 1999, Burger King boasted six consecutive years of positive comparable sales, increased share of traffic in the QSR burger category (from 17.2 percent in 1993 to 21.9 percent), and growing system sales (from $5.6 billion in 1993 to $8.5 billion).

My time at Burger King transformed me into the leader I would be for the rest of my career, and many of those lessons and skills I learned from Jim. His unwavering dedication to the brand and to the people showed me just how important both components were to overall success.

Paul Clayton, Burger King President
1984–1993: Various marketing and operational roles
1993–1994: Vice President, US Marketing
1994–1997: Senior Vice President, Worldwide Marketing
1997–2000: President, North America

Chapter 26

WHAT'S NEXT?

Jim McLamore

Burger King restaurant sales were growing at a brisk pace as calendar year 1994 began. The value menu was in place, and it was receiving broad customer approval. Close to 25 percent of our restaurants were offering the Whopper for ninety-nine cents, and this was producing double-digit sales increases and improved profitability. Average customer traffic was up over 20 percent on the restaurants offering this program, and because of this we were beginning to substantially add to our share of the market. This is not to single out the restaurants serving the ninety-nine-cent Whopper as the only success story in the Burger King system. The rest of the restaurants had all adopted variations on the value-menu theme and they, too, seemed to be enjoying great success. The healing process had begun, traffic had picked up dramatically, and optimism began to fill the air. The future began to look much more promising than it had in many years. I was pleased to have been able to contribute something to help bring this about, and even more pleased that Jim Adamson asked me to continue to stay involved. The company and its franchisees were beginning to enjoy their first taste of renewal and prosperity in years. It was fun to be a part of that.

There was still much more to do. The marketing problems remained largely unanswered, but when Paul Clayton was selected to step in as the new chief marketing officer, things started to noticeably improve. Following his appointment, he led Adamson's search for new advertising agencies to take over the lucrative Burger King account. As a result of the search, D'Arcy Masius Benton & Bowles was selected as the agency to handle media planning and buying. A small but highly innovative agency, Ammirati Puris, was selected to handle the creative side. I spent several days in New York with Burger King management and franchisees on the Marketing Advisory Committee in this selection process. Our advertising in recent years had lost much of its impact and focus, and had produced little, if any, tangible

results. It was obvious to me that we needed not only smart new advertising and a new, revitalized, and innovative marketing approach, but to sharpen the quality of our restaurant services. With these factors fully implemented and boosted by an advertising expenditure, which could easily exceed $200 million a year, the promise of significant increases in sales was clearly in the cards. This was part of the excitement and anticipation felt by management and franchisees as a newly charged Burger King Corporation entered midyear, 1994.

A sharp new marketing strategy could give us a boost, but there was still the thorny problem of dealing with the many restaurants which were not measuring up to acceptable operating standards. This matter was in need of a considerable amount of attention.

When Burger King was compared to Wendy's and McDonald's on the National Adult Tracking study, we were ranked third as being a "pleasant place," third in offering "value for the money," third in "consistency," third in "cleanliness," and third in "exterior appearance." This was a humiliating and alarming report about our restaurant operations. It would be pointless to launch a hard-hitting advertising campaign if we were unable to deliver the promise our advertising would be making. In all the meetings I addressed, I tried to drive home the urgency of correcting these weaknesses. We knew what was going on, the consumer attitudes were right in front of us for everyone to see and read, but up to this point we had been very slow in responding.

At this very same time, management was attempting to introduce a number of promising improvements to our product line. I had always been concerned about the size of our small hamburger. It weighed 1.8 ounces against our major competitor's 1.6 ounces, and there were two things wrong

with that. First of all, we were not getting any credit for being "just a little bit bigger." It was hardly noticeable. Secondly, we charged a higher price, which as far as consumers were concerned, offered very little in exchange. I thought management's response to this situation was right on the money. They decided to introduce a 2.8-ounce product to replace the 1.8-ounce patty we had been using for the regular hamburger, cheeseburger, and the Whopper, Jr. Using two of these significantly larger patties of beef, they introduced the new "mega double cheeseburger," which created a bit of a sensation. Even with competition able to challenge us on price, we believed that consumers would buy on the basis of quality. This was no longer the fifteen-cent burger that the hamburger fast-food business had been built. This was a matter of a good hamburger beating out a rather ordinary hamburger. Price would be immaterial. Our advertising would soon be able to convey the message that our regular hamburgers were 75 percent larger than our competition. Having built their business on a small hamburger, this would present them with another major challenge as we would again be presenting a critical distinction between our major competitor and ourselves. We hadn't done that since 1973, when we told the world to "Have It Your Way."

There was still much to do so far as service was concerned, and much more was needed in terms of employee training and operational support at the restaurant level. Many of our restaurants were in great need of physical upgrades and reinvestment. These deficiencies had come about largely as a result of the inability of franchisees to generate adequate cash flows in recent years. Our company-operated restaurants had fallen into a state of disrepair because of the reluctance of management to adequately reinvest in the business. An improved marketing approach was certainly helpful, but the first order of business would be to improve the quality of the restaurant

operations. If we couldn't satisfy the public that our restaurants were in excellent physical condition and well run, the success of even the finest marketing program would be seriously compromised. I had been stressing the importance of this with top management, and I was pleased to see that considerable progress was being made in this regard.

Entering the fall of 1994, we had made a good start toward rebuilding the business, and it was evident that we had some very powerful forces to draw upon in our quest for increased sales and profitability. The first factor was the Whopper itself, which was unquestionably the most preferred sandwich in the United States. Consumer attitude surveys clearly verified the fact that the Whopper was preferred two-to-one over any other sandwich being offered by our competitors. We had built a reputation for flame-broiling and having it "your way," and these were very important consumer issues. According to the National Adult Tracking study, consumers were giving us high marks on both accounts.

The second factor was our strong physical presence in the marketplace. We had over seven thousand restaurants in operation, and most of them were located on major pieces of commercial real estate throughout the country. With such a gigantic size, excellent locations, and the very strong image that this projected on a national scale, we were enjoying a significant marketing advantage.

The third factor was the commitment of the Burger King system to spend a minimum of 4 percent of sales to promote the business. By 1994 we projected an annual marketing budget in excess of $275 million, $200 million of which was planned to be spent on advertising alone. With such powerful advantages and a commitment by management to improve restaurant operations and customer service, we could expect to be able to

significantly increase restaurant sales. The only question that remained was how well Burger King management, and our franchisees, could execute the strategy. The full support of the franchisees would be critical to our success. Jim Adamson's main challenge at that particular moment was to put it all together and make this new strategy work. I felt confident that he was the one person who had the ability to do that.

This was all taking place in 1994, and Burger King at the time was definitely on a roll having only recently come out of the doldrums. This was in contrast to conditions in the restaurant marketplace where competition was heating up. Many companies were experiencing declining sales, numerous cost pressures, and in many cases, sharply reduced earnings. There was mounting evidence that the supply of restaurants was exceeding the demand for these services. "Saturation" was the buzzword that financial analysts, restaurateurs, and the chain executives used with a growing concern about its many implications.

At this point I wasn't concerned with Burger King's ability to grow and prosper in this competitive arena. We had made some smart changes, and we were getting high marks from a rapidly expanding customer base. I had no doubt that we were on the right track and well positioned to accept the challenges that would come in the future. I expected to see a continuation and buildup of price discounting coming from our major competitors. Everyone was battling for a share on the market that was getting squeezed. It would be natural for participants to return to their original roots, which involved the delivery of good food at the lowest possible cost in the marketplace.

As to the future, I couldn't see many fundamental changes in the way the domestic food-service industry would continue to function. The American

people will not deviate in their demand for quality food, clean restaurants, efficient and courteous service, and "value," which is a term I use to describe a variety of offerings. Value certainly suggests price, yet it stands for much more than that. Consumers will continue to reward the deliverer of low prices and high economic value, but they expect more than that, demanding a variety of services and personal attention in addition to price. Fast, courteous service is just one example. These very simple yet fundamental issues will always be the foundation upon which successful businesses are built and continue to grow in the future. Certain things never change.

Another important key to the success of restaurant operations in the future will be the ability of food-service operators to adjust to changing consumer tastes and demands. In recent years consumers have focused on nutritional and health concerns. This has had a significant impact on bringing about changes in menu offerings in the nation's restaurants. The preference for beef is gradually losing ground to chicken, fish, and other items that contain less fat. Fried foods are being looked upon with increasing disfavor. Consumers and governmental agencies are demanding that nutritional labeling be placed on packaged consumer products sold in grocery stores, and this will dictate changes in the way food is sold in restaurants. Consumers want to know facts concerning the amounts of fat, protein, cholesterol, vitamins, minerals, carbohydrates, sodium, and calories present in the foods they eat. People are conscious about their weight and physical fitness and how the food they eat affects their personal health. As these and other related matters become more important to consumers, restaurants will either recognize their significance and adapt, or become a casualty in a changing marketplace.

During the 1940s, when I began my career in the food-service industry, I couldn't possibly have imagined that such things as smoking in public places

would someday be outlawed. I could not have predicted that consumers would develop such radically different attitudes about the foods we eat. Changes such as these, along with the public's increased focus on physical fitness, health care, and nutritional issues, have already resulted in extending the life expectancy of the American people. We should expect that these issues will come into much sharper focus in the future, and that the nation's restaurants will need to address these concerns by providing the kinds of service a changing customer base will demand.

This invites speculation as to how the restaurants of tomorrow, particularly those operated by large chains, will react and respond to changing consumer demands. The most noticeable changes in the marketplace will occur in the demographic profile of the American people. As the baby boomers grow older and senior citizens live longer, consumer profiles, attitudes, and preferences will shift noticeably. Senior citizens will increase as a percentage of the total, while teenage and eighteen-to-twenty-four-year-old youth categories, although growing in number, will decline as a percentage of the overall total. This will have significant implications in terms of consumer demands and the future styling of the nation's restaurants.

Fast-food restaurants deserve the credit for bringing about the phenomenal increase in eating out in America. The baby boomers were nurtured and brought up in hamburgers, hot dogs, chicken, pizza, and tacos. As they reach ever-increasing levels of maturity and economic status, they will continue to enjoy fast food, but they will also demand an upgrade in their dining experience. This shift in demand and preferences has already resulted in the establishment of many casual-dining and theme dinner houses, which are proving to be successful. Among the leaders in this field are such participants as TGI Friday's, Chili's, Applebee's, Longhorn and Outback steak houses, Olive Garden, Red Lobster, Chart House, and many others.

The fast-changing food-service marketplace has also made it possible for many new small innovative restaurant concepts to succeed along with these large multi-unit chains. Consumers welcome change and tend to reward innovation and unique expression when choosing their dining experience. This poses a certain threat to the huge multi-unit chains, which offer what can best be described as a uniform and highly predictable consistency. Restaurant customers will always be looking for more than that, and they are willing to experiment while they search. These multi-unit chains, including Burger King, will be constantly challenged to provide the kind of ambiance and quality of food and service that attract and reward a choosier and more demanding customer.

I believe the real challenge for fast-food chains will be to address the needs and demands of the rapidly growing ranks of senior citizens. I would target this group as the most promising of them all. Older people are more willing to accept a service style familiar to them, and being more set in their ways, they are less interested in looking for new and innovative concepts. That turf, they believe, belongs to the young. Accordingly, I tend to think that the big restaurant chains will align themselves with the needs and preferences of an aging population. That is not to suggest that large chains won't target kids, families, and young people. They may find it frustrating to come up with an efficient way to serve the younger generation's preferences, but this market is far too big and important to ignore.

I believe there are endless opportunities available to the management and franchisees of Burger King Corporation. There continues to be a growing domestic opportunity, and there is a huge potential for growth in the international markets. American expertise in restaurant operations is light-years ahead of our international food-service counterparts. People in foreign lands have welcomed American food-service innovations, and they will

continue to do so. To be sure, foreign markets are complex and very complicated, but they nonetheless offer a bonanza of opportunity.

As far as the US market is concerned, I seriously doubt that many new multi-unit restaurant chains will ever succeed in developing a full-scale national presence. Strong regional and local chains will offer far too much in the way of stiff competition, and so will the established national chains that already exist. It should be remembered that most of the major markets are already heavily saturated. The financial, marketing, and operational risks are just too great to overcome at this point. Because of the size and presence in the marketplace, Burger King still has a domestic growth potential that should help ensure the continuation of its strong and relatively unassailable position.

In recent years Burger King management has gone "back to basics," which is another way of saying that it has reemphasized the principles upon which the business was originally built. In essence, these basics involve quick, courteous service, a simple and easy to understand menu, clean restaurants, low and affordable prices, and top-quality food. We got away from some of that for a while, but we are back on course, and the results indicate that the basic fundamentals still work well. Proper execution is all that is needed now to elevate the business to the next level of success. What Dave Edgerton and I envisioned back in the 1950s has become reality. In the beginning we set out to build a successful chain of restaurants wherever we could establish them, and we attempted to accomplish that by enlisting the help and support of many people who would become our franchisees. Part of our vision was to pool our combined resources in an attempt to build brand awareness in every one of the markets we entered. The company has grown dramatically as a result of this. I am often asked if we could ever have envisioned creating such a huge success. The quick and easy answer is that it is beyond anything

we could possibly have imagined so many years ago. We owe a debt of gratitude to the thousands of people who played such important roles in bringing all this about. The Burger King story is already over forty years old, but this could be just the beginning because our world of opportunity is still unfolding.

Burger King has the luxury of resting on a solid foundation, and this is reinforced by strong customer acceptance and approval of the way we conduct our business. Burger King's management will be challenged to strengthen this base in a constantly changing marketplace. During my more than fifty years of experience in the food-service and hospitality field, I have witnessed many companies reaching pinnacles of great success only to stumble and fall as a result of an inability to recognize and deal with change.

Burger King has been at the crossroads of making important strategies in the past, and the company has made its share of mistakes in determining direction. These occasional errors in corporate judgment have derailed opportunity and threatened business survival, as this historical account has pointed out. As strong as the company may be at any point in the future business cycle, it would be a great mistake to assume that it can survive the inadequacies of inept management or decision-making that fails to meet the needs, demands, and preferences of restaurant customers.

My business experience has taught me that very few managers really know how to listen. I have always thought of myself as a good listener, and I believe that this is the quality that a leader must have in order to be effective. I have very little patience with people in leadership positions who are unable to control their egos. People with huge egos might climb the rungs on the management ladder for a while, but ultimately their performance is negatively affected by an inability to listen to people other than themselves.

Egos can act as earplugs, and I have witnessed too many situations where this has interfered with good executive decision-making.

Jim Adamson has a rare and unique quality as a leader and as a chief executive. Not only does he invite the opinions of others, but he listens to them. He surrounds himself with intelligent, knowledgeable people who can offer valuable advice and insight. I was impressed by the fact that Jim was always willing to acknowledge that he didn't have all the answers. He was willing to admit this to his own management team and the entire franchisee community.

Shortly after becoming the CEO, Jim invited me to join him for breakfast at the Grand Bay Hotel in nearby Coconut Grove. My February 1993 address to the franchisees in Tampa had impressed him on two counts. The first was that the franchisees seemed very pleased that I was taking an interest in the affairs of the company again. The second, and more important, was that they felt what I had said had put a finger on the problems we were facing the company. I had outlined exactly what I thought was wrong with the business, and the franchisees who attended that meeting seemed pleased that finally someone had called attention to them. I was highly critical about the company's handling of matters in the past. Normally, this kind of criticism would have turned off a CEO. I had put my own personal observations on the table, citing a thoughtless array of problems, all of which led to discouraged employees and franchisees who were losing faith in the system. These things needed to be said, and Jim was smart enough to recognize that this discussion could help in the recovery process he envisioned.

I had a distinct advantage as a spokesperson because of my unique position. I was not a member of management, but the franchisees seemed to

appreciate the fact that, because of my background experience and long-standing interest in the business, I knew what worked and what didn't work. I was an unbiased and highly objective independent, with no ties or obligations to either management or the franchisees. I was free to say what I thought, and both management and franchisees were willing to listen.

Perhaps as a result of the discouragement that had set in by that time, many franchisees had quit carrying their share of the load. I could challenge them on that issue and get away with it, because it was an honest and fair-minded expression of concern on my part. They were willing to accept it on that basis. I could challenge them on that while mentioning all of the things that the franchisees themselves needed to address. I could do this and chastise management for their lack of effective leadership, with nothing to lose and nothing to gain and the credibility to go along with it. I could be totally honest and forthright in stating what I believe to be the problem, and what I believed needed immediate fixing.

Jim Adamson, at the time, was a forty-five-year-old executive with no previous experience of any kind in the restaurant business. He was candid with everyone about that, acknowledging that, although he was not a restaurateur, he was "a darned good retailer." His admission told me about the man, and that level of honesty and candor was well received by our franchisees.

First of all, Jim knew that the fundamental issue confronting Burger King involved the marketing of our food and restaurant services. He obviously understood the importance of building brand awareness, a key factor that would be so important in restoring the business to health and profitability. Second, I couldn't help but be impressed by the fact that this man's ego wasn't going to interfere with his getting the best advice he could obtain. He

quickly recognized the importance of seeing to it that our customers receive the very best in terms of restaurants services. He would find the people in the organization who could deliver on this important commitment. Meanwhile, he would stay focused on building the brand.

During our breakfast meeting, Jim asked me to become more actively involved in the business. I was impressed, particularly in light of the fact that I was continuing to call attention to management's previous lack of leadership. I accepted his invitation, which I viewed as a great compliment, and I told him that I would do whatever I could to help. I cautioned him, however, that until he got the defects in the system ironed out, I would be constantly challenging him and his management people to get it right. This understanding formed the basis of a working relationship, which has been a matter of great personal satisfaction to me. I have not been the architect of the new strategic direction of Burger King. That credit belongs to Adamson and his management team. I played a role in calling attention to the problems we were facing, and I had simply suggested many of the things which needed to be done to correct these problems.

I had a history of making a lot of mistakes during my business career, and many of them were made during the fifties, sixties, and early seventies when I was the CEO of the company. Sometimes I think it is a small wonder that I survived at all. I often look back to the period of 1949 to 1951 and the opening of my first two restaurants. Mistakes in judgment forced me to cope with many disappointments, which on several occasions put me on the verge of failure and personal bankruptcy. Perhaps the only benefit that can be derived from defeat and near failure is the recognition that adversity is such a great teacher. I was taught some harsh lessons in route to building the business. Each bump on the road was a learning experience, helping me prepare for the next challenge. When I was down in the dumps and suffering

from the humiliation of making a mess of a business career that meant so much to me, I learned how to listen and reflect on how to steer a better course into the future. I guess my advice to young people would include not being afraid to make mistakes.

What attracted me to Jim Adamson was his intelligent approach to studying past mistakes, his willingness to listen to people who could give him advice, and his ability to put it all together and chart a new strategic direction that made sense and was appropriate for the company's future.

This is by no means to suggest that I thought the company was home free in 1994. The resurgence of sales and profitability that came as a result of Jim's leadership was impressive to be sure, but there were also roadblocks in the way. Burger King still had to contend with concerns of the NFA and franchisees that remained unconvinced that their interests were receiving adequate consideration. Proposed franchising legislation and regulation at the national and state level were posing a threat to the continuation of mutually productive business relationships between franchisors and franchisees. My advice to franchisees was to avoid, at all costs, inviting government into the picture. There were complex organizational issues to deal with, much of which came about as the result of corporate reengineering, which involved cutbacks in personnel and the realignment of job responsibilities. This was a painful and difficult process for Burger King to have undergone, and there was still much healing to be done. The intricacies of expansion into so many international markets posed many challenging questions about structure, control, and operations. The opportunity was huge, but so were the risks.

By 1994, ominous signs had appeared which indicated that the restaurant industry was becoming overly saturated. Although the chains that made up

the major share of the market were still adding units, they were being forced to fight for an increasing share of the market that was no longer expanding as rapidly as it had done in the past. The proliferation of chain restaurants was growing faster than the market itself, and it was doing so with predictable results. Casualty reports began to flood the business and trade press. By 1994, the industry was well into the "value decade," with discounting being the order of the day. All of this had the effect of squeezing margins and putting pressure on profits. In many cases, returns on invested capital failed to meet the expectations of the financial community, and this only aggravated the situation. For many years Wall Street viewed the restaurant industry as a field ripe with promise and opportunity, and with good reason. There had been many examples of extraordinary successes in the restaurant business.

However, as saturation and discounting reared their ugly heads, a lot of things began to unravel. Management and personnel cutbacks predictably led to inferior restaurant operations. Customers began to experience poor service and complain about it. Restaurants were often not as clean as they should be, and different managements, often in desperation, began to "short term" the business in order to focus on more cash flows and less operations. They began to lose sight of the importance of the quality of the customers' experience in the restaurant. My prediction was that a shakeout could be right around the corner. Within the industry were many instances of leveraged buyouts and ill-conceived financing schemes. Many of these overleveraged situations ultimately were forced to seek the protection of the bankruptcy courts in order to continue.

During 1994 in particular, changes in the ranks of top management and news of disappointing earnings were regularly reported in the trade press. Investors began to look at the restaurant industry with renewed caution and

a keener investment approach. As competition continued to grow, the strongest players began to beat up on the weaker ones. There were serious problems in steak houses, the pizza business, sub shops, casual-theme restaurants, coffee shops, cafeterias, the chicken business, double drive-thru restaurants, and a number of fast-food hamburger operations. Consumers were being bombarded by deals and price discounting, which were causing disruption and a lowering of profit margins. More and more it appeared that survival of the fittest would be the governing rule in these situations. With so many inexperienced and undercapitalized participants in an already crowded and highly competitive field, some of the weaker players dropped by the wayside. It seemed almost a certainty that many more would follow.

The year 1994 marked a turning point when good management, sound restaurant and marketing operations, and adequate capitalizations came forth to bring some long-overdue sanity to an industry which, in too many cases, had overextended its limits. This was the prevalent economic situation in the food-service business as we entered 1995. As far as Burger King was concerned, I remained involved, at least to the extent that I could contribute in a constructive way to the benefit of the company, but the real leadership responsibility would remain with a much younger management team. I had no interest in assuming an active role in day-to-day management, but I was very willing to counsel and advise when called upon to do so.

Chapter 27

LOOKING BACK

Jim and Nancy McLamore in 1994

My career in the food-service industry had lasted over fifty years, ever since 1943 when I hitchhiked to Cornell as a seventeen-year-old with no money, but with an acceptance to the university in my pocket. As I approach the age of seventy, I am constantly reminded that this is a time when most people are already retired. Fortunately, at least for the time being, I do not belong in that category, and I am happy to be able to say that. I don't know where the road of life will lead me, but I am enjoying the experience of walking it. I am busy and very stimulated by all the many things that I am doing. I feel as though I am contributing something of value to society and the world around me. I have a wonderful family, a good many valued friends, a great marriage to an extraordinarily special woman, good health, and a mind that continues to function reasonably well. As far as my mind is concerned, I like to think that the marbles are still all there. For this and all the rest, I feel fortunate and grateful. My personal life has been very good to me.

My professional life and business career have been, to a large extent, dominated and influenced by my involvement with Burger King Corporation. I have had the pleasure and satisfaction of playing a role in elevating the company into the enviable position of being the world's second-largest restaurant chain, which is something I could never have imagined so many years ago. This accomplishment is a matter of considerable pride and satisfaction, which I would have enjoyed sharing with my parents and grandparents. This book attempts to tell the story of how all this happened and how the company reached its pinnacle of success, but the story itself will probably never end, nor will the final chapter ever be written. I expect that this history will continue to be written, and that it will record the pride of many people, including me, who were there and helped make it happen.

The benefit of hindsight is wonderful. As I was approaching my sixty-eighth birthday and was busily engaged in writing this book, I asked myself, "If I had to do it over again, what would I do differently?" I think the answer breaks down into two parts, business and personal.

First, what would I have done differently about charting the course of Burger King during the thirteen-year period when Dave and I were in control of its destiny? I would have built the small hamburger to sell for fifteen cents rather than eighteen cents we started with. The originators of the Insta-Burger King system thought there was a marketing advantage in offering a two-ounce meat patty over McDonald's 1.6-ounce patty, even though we would have to sell it at a higher price. I think they were wrong about that. The fifteen-cent price was a compelling issue with consumers at the time, and we failed to fully recognize the importance of it. I would have given serious thought to grilling our hamburgers rather than broiling them the way we did, simply because we could have delivered the product hotter, faster, and perhaps better flavored.

We should have insisted on getting rid of the Insta-Machines sooner than we did. Clearly they were part of the production problems we faced during the early years, and we contended with their inconsistent performance for too long. A fifteen-cent hamburger properly prepared, coupled with the important introduction we made in 1957 of a thirty-nine-cent Whopper, would have better positioned us in the marketplace during the early years.

I would have sought a different level of professional advice concerning financial strategy and real estate development, and I would have taken more risks than we did following our expansion outside of Florida in 1961. We should have signed more leases and bought more real estate than we did. It would have been as advantageous to us as it was to Harry Sonneborn and

McDonald's in developing a more profitable and workable real estate development plan. Sonneborn's masterful real estate financing formula provided the real foundation for the McDonald's success story. Perhaps if we had sought more sophisticated and professional financial counseling on this important aspect of our business much earlier, we could have positioned Burger King as a much more profitable company.

After McDonald's and Kentucky Fried Chicken went public in 1965 and 1966, I should have been more aggressive in seeking out an investment banker who would have helped us in building a more effective corporate financial strategy. I believe we made a mistake in going to Blyth and Company. I should have challenged their statement that Burger King was not ready to become a public company. We should have gone to a more venturesome banker who was willing to take some risk and provide some leadership in this regard. Of course it is easy to find fault with yourself when you realize thirty years later that Burger King Corporation as a public company might have had a market capitalization of three billion dollars or more.

Had we gone public in 1965 or 1966, it would have been unlikely that we would have given any serious consideration to a merger proposal from the Pillsbury Company. If such a proposal had been made, I doubt that we would have had any interest in considering it. Had we been an independent public company, Dave, Harvey Fruehauf, and I probably would never have considered a merger with anyone. Our merger with the Pillsbury Company was a disappointing strategic decision. Burger King suffered the loss of our forward momentum due to mandated cutbacks. The consequence of cutting back on franchising and real estate development was that we were never again in a position to seriously challenge McDonald's for the lead. As far as growth and profitability are concerned, we were beaten soundly.

There were a lot of things I would never have changed. First of all, I made a good decision in picking Dave Edgerton as a partner. Dave was a decent, thoughtful, considerate person, and he was my friend. He worked hard. He was intelligent, creative, and devoted to the business. We worked well together as a team. We rarely disagreed or had any confrontational difficulties. We enjoyed a solid personal and business relationship that worked well in the formative years of building the business. Dave was a great contributor to our growth and success.

I would never have deviated from our insistence on forging a contractual relationship that required franchisees to support a cooperative advertising program. This was an industry first, containing a firm stipulation that helped grow the business. It remains the basic foundation of the business. The creation and positioning of the Whopper as our signature product was the most important thing we ever did, and it was the most responsible for our success. As far as growth and expansion are concerned, I think we were right in entering as quickly as possible into every state in the country.

Gaining national stature as rapidly as we did gave us the advantage of using the efficiency of mass media and network television advertising when most of our competition had to wait years to reach that level of national awareness. Rapid, profitable, and large-scale franchising came on the heels of this positioning. We were right to plunge into as much real estate development as our limited resources would permit during those early years. We should have done more, but what we did do proved to be enormously profitable to the company. Our determination to enforce quality standards in the four fundamental areas of good restaurant operations paid the ultimate dividend. We were uncompromising in demanding quality in food, service, cleanliness, and courtesy, which are the four basic ingredients of success. Finally, we were right in seeing to it that our franchisees were

successful. We worked hard to ensure that. Putting the franchisees' interests ahead of our own paved the way to our own success.

It was a rocky road, full of bumps and potholes, and it wasn't always easy, but the point is that although we did a lot of things that weren't particularly well conceived, and oftentimes not smart, we did exercise good judgment most of the time. We did a lot more things that were right than were wrong. The success of Burger King Corporation makes the point better than I can.

That brings me to the second part of the question, which involves Jim McLamore in a much more personal way. Would I have done anything differently concerning my service to the company?

Taking stock of myself as I write this book, I feel grateful for all the many good things that have happened to me in the past. A great marriage, a wonderful family, good health, financial security, and the sense that I have used my life in what I consider a useful and constructive fashion. That last part is important to me simply because I derive such pleasure and satisfaction from my involvement in community service and philanthropy. I am under no stress, and I am fascinated with all the activities in which I have become so deeply involved.

Would I have been as comfortable today if Burger King had gone public instead of becoming a part of Pillsbury? That is very hard to say, but I suspect that had we gone public, my deep sense of commitment to building and managing the company would have resulted in my staying on much longer than I did. When the time came to consider changing the top leadership of the company, I may not have been the best person to judge either my effectiveness as the chief executive officer of Burger King or make a judgment about stepping down.

Having a thorough understanding of the Burger King business and the marketplaces we were competing in made me very comfortable and confident about my ability to serve Burger King as the CEO. However, that same feeling of confidence might have led me to believe that my service to the company was indispensable. It would have been unfortunate if I had stayed too long and failed to realize it. Getting optimum corporate results is the real test of effective leadership, and if I had failed in that regard, I would have been deeply disappointed.

Many questions come to mind. Would I have been qualified to run a large public company, and if so, for how long? What kind of an organization and what kind of competent professional management would I have been able to attract and develop? What about my willingness to delegate authority to other executives? Would the additional pressures of the job have had a negative effect on my attitude, disposition, and leadership ability? What about my health? How would this have been affected? I was smoking three packs of Lucky Strike cigarettes a day, which wasn't a very intelligent way to ensure longevity and good health. When would I have had the good sense to quit? And what about the stress factor—how would I have been able to cope with the increased burden of leadership?

One thing is certain. If the Burger King Corporation had been a public company in 1972, I would have been very reluctant to step down when I did at the age of forty-six. The fact that I did step down and "retire" at that point was a very important decision in my life. I'm very pleased with the way things turned out for me, even though I had difficulty in accepting the idea of retirement at the time. With the benefit of hindsight, I recognize that stepping down when I did under the prevailing circumstances was the right thing for me to have done, notwithstanding my passionate interest in the

company and its future. Whether it was the best thing for Burger King at that time, I will leave to the judgment of others.

I have no doubt that I would have been a more effective leader as the CEO of a publicly owned Burger King Corporation than I was as a hired gun for Pillsbury. The principal reason centered on matters involving the company's strategic direction. I would have energized the company's growth rather than pulling back on it. There is no question in my mind that I would have seen to it that Burger King grew much more rapidly than it did during those important formative years. However, I'm not sure what I would have been able to accomplish for the company over a longer period of time. I doubt, for instance, that I would have been smart enough to hire Don Smith, who did a lot to increase the company's momentum at a critical time. It might have been too difficult for me to let go. How many mistakes and miscalculations I might have made are probably not worthy of conjecture.

The bottom line to the question of whether I would have done anything differently boils down to this: Burger King should have remained independent until it was the right moment to go public, and I probably should have been smart enough to see this and insist upon it.

My confidence that Pillsbury was the right company to help us grow and keep pace was clearly misplaced. If I had known that they might abandon our growth strategy, there would have been no doubt about the direction we would have taken. We would have waited and remained independent hoping to take the company public whenever we could have arranged it.

In retrospect, it would have been in our best interests to become a public company. Being in that position, we would have been able to acquire franchisees for stock, and having gained access to the capital markets, we could have reaped the rewards over so many years that were so clearly

abundant in the real estate market. I expect that as an independent public company with an entrepreneurial style of management, we would have grown more rapidly and at a higher level of profitability. Certainly our management team would have been more highly motivated.

Although it is likely that I would have stayed on as CEO longer than I did, it is difficult to say for how long. As we entered the 1970s, the company was reaching a size demanding a more professional and sophisticated style of management. There comes a point in such situations when the service of a founder-entrepreneur has run its course. The trick is in knowing when that point has been reached.

Certainly I'm deeply grateful for all the wonderful things that have happened to me and become a part of my life since 1972. I could hardly have asked for more than I have received, and I am comfortable to leave it at that.

Chapter 28

CONCLUSION

Jim received an honorary degree from the University of Miami for the work he did as chairman of the board.

Jim found out he had cancer in late March of 1996, not long after completing this autobiography. On August 8, 1996, just a few months later, he passed away. To his personal relief, he had been able to complete and chronicle the birth and growth of his "baby," Burger King, since only he could tell the true and honest story. One of Jim's greatest traits was honesty, he didn't pontificate to try to make things look better. He told the story straight and included it all: the good, the bad, and the ugly. He knew he didn't do everything perfectly, but he did the best he could. That's all any of us can do.

Jim's memorial service was held at Plymouth Congregational Church on August 12, 1996, where his closest friends and coworkers shared some of their fondest memories of him. At the memorial service, his son, Whit McLamore, wrote a moving eulogy entitled "Heroes Lost."

Heroes don't come easily; they don't happen every day
They're molded from a normal soul who is special in some way They don't try to be a hero; it just happens that they are
You look up to then and see them as a brightly shining star.

I have my share of heroes, and I'm sure you do too
And when you lose one, it hurts so bad
you don't know what to do
Eventually you come to grips with the feelings that you have
And look back at their life and cherish the impact they have had.

So remember them for their spirit and for how they lived life too
Remember them for their love and warmth
and being there for you
You see, heroes don't come easily, they don't happen every day
So when you love one it's OK to cry, and talk to them when you pray.

Epilogue

JIM'S LEGACY WITH THE BURGER KING MCLAMORE FOUNDATION

When you create a legacy by making a large impact in life and building an innovative brand, it lives on for years to come. More than twenty years after his death, this still rings true for James W. McLamore. A visionary in creating one of the world's leading quick-service restaurant brands in the industry, Mr. McLamore dedicated his life to the Burger King brand and to his community by empowering individuals and feeding their potential through education.

With a passion for philanthropy and service, James W. McLamore spent his time transforming the lives of those in the quick-service industry, as well as those with an enthusiasm for education. His influence was felt beyond the walls of a Burger King restaurant, as Mr. McLamore would dedicate his time to serving on trustee boards and as president of the National Restaurant Association from 1975–1976.

During his time as the president of the National Restaurant Association, Mr. McLamore would lobby in Washington, DC, on behalf of the industry. At the University of Miami, Mr. McLamore would serve as the chairman of the board of trustees for ten years and help raise more than $517.5 million. For his commitment to education in his home of Coral Gables, FL, the University of Miami awarded Mr. McLamore an honorary doctorate of humanity in 1990.

James W. McLamore's unwavering dedication to bettering the lives of those around him would pave the path to creating his legacy and having that dedication to education live on for years to come.

Due to his belief in the power of education and the important role it plays in a successful future, Mr. McLamore was honored by a group of franchisees and the Burger King Corporation with the creation of the Burger King McLamore Foundation shortly after his death. This foundation created the Burger King Scholars program in 2000. A scholarship program that was funded by franchisees themselves, the Burger King Scholars program provides awards to local community students and employees alike. Along with funding these scholarships, franchisees and the foundation have honored Mr. McLamore through another one of his passions—golf.

The Jim McLamore Golf Invitational was established in 2002 and serves as a legacy event that has allowed the Burger King Scholars program to award over $2.4 million in scholarships to date, and continues to help students succeed as they embark on their college journey.

Without an education, an individual limits their potential. With a purpose to bring education to deserving students and honor Mr. McLamore's legacy, the Burger King McLamore Foundation has awarded $35 million in scholarships to over 33,000 deserving students in the United States, Puerto Rico, and Canada.

In 2011, our mission to create brighter futures was strengthened when the McLamore Family Foundation established a new honor for the Burger King Scholars program with an annual grant of $150,000, creating the James W. McLamore Whopper Scholarship Award. This scholarship award allowed and continues to allow the Burger King McLamore Foundation to honor the top three students across North America who truly embody the principles

that James W. McLamore believed in. Each of these students receives a $50,000 four-year scholarship to a university of their choice.

In 2012, the Burger King McLamore Foundation expanded globally to bring their assistance to those without proper access to a quality education. In five years, more than 90,000 children have been able to learn to read, write, and even attend school.

The success of the foundation's programs and initiatives would not be possible without the generous donations from franchisees and vendor partners of the Burger King system, yearly in-restaurant campaigns, and multiple fundraising events. With every dollar fundraised, the foundation provides education, literacy, or emergency relief for thousands of students and families in nearly thirty countries.

With the continued support of our loyal franchisees, vendor partners, restaurant guests, and the Burger King Scholars alumni, the Burger King McLamore Foundation will continue to honor James W. McLamore and his passion for education.

Mr. McLamore's legacy will live on through the thousands of scholarship recipients in North America, and the hundreds of thousands of children and families receiving literacy materials and education for the first time in underdeveloped areas like Southeast Asia and South Africa. All of this… because of Mr. McLamore's vision and unwavering belief in the importance of education.

What started as a small burger chain in Miami, has continued to impact the lives of brand followers, students and families around the world. And with this, we leave you with a quote from Jim McLamore himself…

"Students can't possibly pay for the cost of providing an education. It takes people that are out in the community that think it's worthwhile to educate young people and see them advance in the community."

Steve Lewis, Chairman of the Burger King McLamore Foundation, 2018

ACKNOWLEDGEMENTS

I had the incredible honor to work on my grandfather's autobiography as our family looked to republish his memoirs to honor the legacy he left behind. When he passed in 1996, I wasn't old enough to really know him outside his being "Mac" and doing some amazing Looney Tunes impressions. The opportunity to work on this book was a second chance to dig into his story, learn from him, and gain wisdom in life and business. The process helped us uncover interviews with him and Dave Edgerton, his business partner, talking about the early days, as well as memorial service interviews of the amazing impact he left on people; family, franchisees, friends, and colleagues. I got to interview people who knew him, and one and all told me that they came away as better people because of him. This isn't just a story of a great businessman, but truly a great man that I am proud to call family. Thank you, Mac.

I am thankful to all the many people who gave their time and effort to add to this republishing, from the McLamore clan and "Uncle" Dave, to everyone who helped, including Jose Cil, Jim Adamson, Roland Garcia, Jim Myers, Ramon Moral, Alex Salgueiro, Paul Clayton, Steve Lewis, Sherry Ulsh, Bentonne Snay, Amanda Israel, and others. Thank you.

—Tucker McCormack

ABOUT THE AUTHOR

Jim McLamore was the cofounder and first CEO of Burger King Corporation, creating one of the greatest fast service restaurant chains in the country together with Dave Edgerton. After selling it to Pillsbury and remaining the CEO for five years, he stepped down but watched over the company for the next twenty-five years. After retiring, he served on the board of several large corporations and dedicated his life to serving the South Florida community. He was chairman of the University of Miami, the United Way, Fairchild Tropical Gardens, and the Orange Bowl Committee and was an investor in the Miami Dolphins for several years, including their 1972 Perfect Season. He was an avid gardener and reinvested in the

educational institutions that impacted him: Northfield Mount Hermon and Cornell University. He passed away August 8, 1996.

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